LIBRARY
[illegible]

JUN 1 6 1972

TREASURY DEPARTMENT

TREAS
HJ
10
.A13 P4
V.170

U.S. Treasury Dept.

Press Releases

LIBRARY
ROOM 5030

JUN 16 1972

TREASURY DEPARTMENT

Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE W04-2041

FOR IMMEDIATE RELEASE August 3, 1970

TWO NAMED TO TREASURY TAX POSTS

Treasury Secretary David M. Kennedy today announced the appointments of John E. Chapoton, to be Deputy Tax Legislative Counsel, and Jerry L. Oppenheimer, to be Associate Tax Legislative Counsel.

Both appointees will assist Meade Whitaker, Tax Legislative Counsel in carrying out the responsibilities of that office. Mr. Chapoton succeeds Daniel I. Halperin, who has left the Treasury to teach at the University of Pennsylvania Law School. Mr. Oppenheimer succeeds Mr. Chapoton, who has served as Associate Tax Legislative Counsel.

Messrs. Whitaker, Chapoton and Oppenheimer are responsible for domestic tax legislative matters under the direction of Assistant Secretary for Tax Policy, Edwin S. Cohen.

Mr. Chapoton, 34, is a native of Galveston, Texas. He attended Washington and Lee University in Lexington, Virginia and the University of Texas, Austin, Texas, receiving his BBA degree, with honors, from the University of Texas in 1958. He received his LL.B. degree, with honors, from the University's Law School in 1960. While at the University he was an editor of the Texas Law Review and a member of the Order of the Coif, a legal honor fraternity. After law school, Mr. Chapoton was on Active Duty with the U.S. Army for one year. He then joined the Houston firm of Andrews, Kurth, Campbell and Jones, where he practiced law until his appointment to the Treasury Department, May 1969.

Mr. Chapoton is married to the former Sarah Eastham, of Houston. They have two children and make their home in Washington.

(OVER)

Mr. Oppenheimer, 33, is a native of Birmingham, Alabama. He attended the University of North Carolina at Chapel Hill, receiving his BS degree in Business Administration in 1958. He received his LL.B. degree from the Law School of the University of Virginia in 1961. While at the University he was an editor of the _Virginia_ _Law_ _Review_ and a member of the Order of the Coif, a legal honor fraternity.

After law school, Mr. Oppenheimer joined the Washington,D.C. firm of Covington and Burling, where he practiced law until he joined the Treasury Department in 1969.

Mr. Oppenheimer is married to the former Joan Harris Chadwick-Collins of Washington, D. C. They have two children and make their home in Washington, D. C.

oOo

Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE WO4-2041

FOR RELEASE IN AM'S
OF TUESDAY, AUGUST 4,1970

August 3, 1970

TREASURY ANNOUNCES PROPOSED REGULATIONS ON CHARITABLE REMAINDER TRUSTS

The Treasury Department announced today that it has sent to the Federal Register for publication on August 5 tentative Income Tax Regulations under section 664 of the Internal Revenue Code of 1954, relating to charitable remainder trusts, which was added by the Tax Reform Act of 1969.

Section 664 defines two new types of trusts -- charitable remainder annuity trusts and charitable remainder unitrusts -- and provides rules under which deductions are allowable for income, estate, and gift tax purposes for gifts of remainder interests in property to charities. Such gifts are a major source of philanthropic support for educational, religious, and other publicly-supported charitable institutions. The publication of the proposed regulations should help resolve uncertainties as to the tax status of such gifts and should permit donors to proceed with gifts that may have been delayed pending clarification of their status.

Prior to final adoption of the proposed regulations, the 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:LR:T, Washington, D.C. 20224, within 30 days from the date of publication of the Notice in the Federal Register.

oOo

Deoartment of the TREASURY NEWS
HINGTON, D.C. 20220 TELEPHONE WO4-2041

THE DEPARTMENT OF THE TREASURY 1789

ADVANCE FOR RELEASE AT 3 P.M. EDT, TUESDAY, AUGUST 4

REMARKS OF THE HONORABLE JOHN R. PETTY
ASSISTANT SECRETARY FOR INTERNATIONAL AFFAIRS
BEFORE THE AMERICAN CHAMBER OF COMMERCE OF
MEXICO, HILTON HOTEL, MEXICO CITY
TUESDAY, AUGUST 4, 1970

Mexico occupies a special place in the Latin American economic relations of the United States. It seems fair to say also that you, the members of the American Chamber of Commerce in Mexico City, occupy a special place within that economic relationship. You are a vital part of the most impressive and sustained economic growth performance in Latin America. I am happy to have the opportunity today to learn more about that growth experience, from your perspective as participants. At the same time I would like to sketch, from my perspective in Washington, some thoughts about U.S.-Latin American trade and payments relationships that are relevant to a better understanding of economic relations within our hemisphere.

The first point I would make concerns the pattern of U.S.-Latin American trade over the past decade or so. I am afraid that much that is said on this subject assumes, perhaps unconsciously, that the hemisphere trade accounts always run heavily in favor of the United States. Contrary to this widespread belief, the United States has not had a large and persistent trade surplus with Latin America. While the situation obviously varies from country to country and from year to year, the aggregate picture at first glance appears to be of a normally modest U.S. trade surplus with the 19 Latin American Republics. But this surplus disappears in most of the years of the past decade when account is taken of the fact that about $200 million per year of oil recorded as coming from the Netherlands Antilles, where it is refined, is in fact Venezuelan oil. When this adjustment is made in our trade figures, it turns out that the merchandise trade balance is normally in favor of Latin America. In fact, Latin America sold over $450 million more to the United States than the United States sold to Latin America during the period 1961-1969. Only in 1968 and 1969 -- years of relative prosperity for Latin America -- did the U.S. have annual trade surpluses in excess of $100 million. There are many arguments for emphasizing improved access to Latin America to the markets of industrial nations, but there is not included among these reasons a Latin American trade deficit with us.

Despite the fact that our trade in goods with Latin America has not been characterized by major imbalances in favor of the United States, the commodity composition of that trade has still not been altogether satisfactory from the Latin American standpoint. Latin America's exports continue to consist very heavily of primary products. Even though manufactured exports from Latin America expanded more than three times as fast as exports of primary products during the period 1960-1967, such manufactured products still only amounted to 15% of exports in 1967.

What will be the shape of our trade patterns during the 1970's? To answer this we need better analysis of the long term, qualitative factors at work in Latin American economies and in the U.S. economy. The case of Mexico illustrates the possibilities for fairly rapid change in the character of trade between the United States and Latin America and in directions favorable to Latin American development. The economies of the U.S. and of Mexico today are not the same as they were in the early 60's or as they will be at the end of the 1970's. It is natural that trade patterns reflect the ways in which they are changing.

For example, let us take the major trade categories of chemicals, non-food manufactured goods, machinery and transportation equipment, and miscellaneous manufactures (i.e., Sections 5-8 of the Standard International Trade Classification). These categories comprised 20% of U.S. goods imports from Mexico in 1963. In 1968, the latest year for which full data are available, imports in these categories represented 26% of total U.S. imports from Mexico. Clearly, Mexico's capacity to produce higher value semi-finished and finished goods increased markedly over the relatively brief period noted, and the trade accounts reflect this development.

During the same period, U.S. exports to Mexico in the category of machinery and transportation equipment (i.e., Section 7 of the SITC embracing goods reflecting heavy elements of advanced U.S. technology) increased from 47% of 1963 exports to Mexico to 53% of 1968 exports. Correspondingly, the share of other U.S. manufactures in our exports to Mexico declined somewhat from 30% to 28%. Once again, the trade shifts reflect the underlying developments in the respective domestic economies: the increasing concentration of the United States on technology-intensive equipment and the increasing production capacity in Mexico for semi-finished and finished products for export and to replace goods previously imported.

The second point I would like to make which is essential to a fuller understanding of U.S.-Latin American economic relations involves our full balance of payments accounts, a much broader concept than just our trade balance. On the basis of all recorded transactions the United States -- again contrary to widespread belief -- has been in substantial deficit with Latin America taking the past decade as a whole.

In the period 1961-64, our deficit with Latin America on recorded transactions totaled $1.5 billion. In the period 1965-68, our deficit dropped to $82 million, as a result of three years with modest surpluses and one year with a large deficit. Only in 1969 did we have a large surplus, $666 million, reflecting Latin America's high financial capacity to import and low U.S. private capital outflows. (In these figures, I have treated so-called "special transactions" as liquid assets and part of Latin America's reserves.)

Our over-all balance of payments with Latin America can also be examined from the standpoint of changes in Latin America's principal reserve assets, its gold and short-term dollar balances. In doing so, we must be mindful that Latin America may earn or lose dollars, or buy or sell gold in transactions with other areas of the world. In fact, Latin America has had large trade surpluses with Europe and Japan since 1963. These have averaged more than three-quarters of a billion dollars annually. They provide the basis for a triangular movement in which Latin America gains net earnings outside the hemisphere and uses them to build up dollar reserve balances in the United States or, when necessary, to finance net payments to the United States in particular years.

Examination of reserve balances reveals that Latin America's reserve position has shown steady and substantial improvement over the decade in relation to growth of Latin American trade or GNP. Latin American gold and dollar holdings increased by $1.1 billion in the four years 1961-64 and by $1.45 billion in the next four years, 1965-68. Only in 1969 was there a decline -- $441 million -- largely reflecting the reversal of the "special transactions" I mentioned earlier.

The point is that Latin America's financial relations with the United States have not been at the expense of a satisfactory growth of reserves. Rather, Latin America was in the fortunate position of regional balance, or better, most of this past decade with both Europe and the U.S. If the trends of the past continue, the allocations of SDR's will only serve to emphasize this regional characteristic.

Let me admit promptly that what I have just said involves a great deal of aggregation, thus obscuring the reality that some countries have added heavily to their reserves at the same time others are drawing them down. But the example of those countries enjoying strong trade and reserve growth results does suggest that the balance of payments health of individual Latin American nations depends at least as heavily on the quality of their national economic policy planning and execution, as on external factors, including the policies of major trade partners. The United States is making earnest efforts to assist Latin America to the maximum extent through favorable trade and assistance policies. These efforts, however, are complementary to those of the Latin American nations themselves. I think that Mexico has provided an example to other Latin American countries in the effective mobilization of domestic and external resources as part of a coordinated development effort.

These past two subjects -- the U.S. trade position and the U.S. payments position with Latin America -- lay the groundwork for a subject that is always somewhat tender in U.S.-Latin American economic relations -- U.S. direct investment in Latin America. Such investment remains an issue within Latin America. Its detractors call investment a problem because in their words U.S. investors "bring home more money as earnings from Latin America than they put in as new investment." This is the financial nub of the criticism, although there is a wide variety of additional and not necessarily economic concerns involving what is called national sovereignty, or cited as exploitation.

Much of this discussion concerning U.S. direct investment must leave in the mind of the listener the image of a 100 percent-owned and 100 percent-operated subsidiary of a U.S. company operating in a Latin American country. We should bear in mind that this is the exception and not the rule; that these investments are becoming less and less U.S.-operated and that the degree of ownership is moving -- as you in Mexico so well know -- far away from 100 percent ownership, toward balanced joint ventures. Many, too, miss the point that when the United States talks about fostering private investment, we place special emphasis upon local private investment. We emphasize the need to develop the entrepreneurial skills and job-creating benefits of local private investment and it does not necessarily follow that there has to be a U.S. equity investment to make this come about.

The basic statistical facts of U.S. private invest in Latin America are well known, although subject to gra problems of measurement. The value of U.S. private direc investment in Latin America totals $11 billion or more; we add to this at annual rates of from $200 million to $600 million per year; and profit remittances amount to $1 billion or so per year. But even with agreement on these basic facts concerning U.S. direct investment, there are marked differences in the conclusions reached by different observers as to its input and desirability.

Those who are doubtful about foreign direct investment generally state three points of view: they feel that direct foreign investment becomes a burden to the balance of payments of the host country -- largely because of profit remittances; they note that total profits over time may equal or exceed the initial investment, and this raises a conceptual question about the nature of the profit repatriated by a foreign investor; and they tend to resist recognition of the broader benefits, some easily measured and others not, that are obtained from foreign investment.

On the first point, conclusions differ because some reach their results by balancing this year's inflow of new capital against this year's outflow of profits. These profits, however, were generated by the entire stock of capital accumulated over many decades. If the aim is to see if the profit outflow is reasonable, the more common and more logical practice would be to show repatriated earnings in relation to the direct investment inflow accumulated over the years. Whichever compilation is employed, however, I doubt that these statistics alone can be used to answer satisfactorily all the relevant questions about the advantages or disadvantages of foreign private capital.

Maybe more work needs to be done by the economists which would help us to understand such important considerations as: the development of resources more quickly than would otherwise take place; the advantages of a world marketing organization; the stimulative effect on existing business; whether or not the rate of profit earned is fair in relation to invested capital; whether or not the investment represents a rational use of resources; and the possibilities a new investment may open for participation in regional trade groupings. No statistical series will tell the full story and judgments inevitably will be involved. But a better understanding of the range of considerations relevant to these judgments would help each of us in our task.

On the second point, both our own and Latin American balance of payments presentations properly classify profit remittances as payments on current account, not capital account. Interest payments on loans are similarly treated. This reflects the fact that profit remittances are payments for the use of an imported factor of production, capital; they are not a return to the investor of his capital itself; just as a loan is not amortized by interest payments on it. To treat profits as a return flow of capital is both misleading and inappropriate.

The third point is that a balanced judgment can only be reached if a great many more elements than just remitted profits are taken into account. A very large proportion of the output of U.S. affiliates in Latin America earns foreign exchange through exports or saves it through import substitution. The reinvested earnings of subsidiaries never even show up in balance of payments accounts. And what about the non-quantifiable elements -- the introduction of new productive technology and managerial techniques, the creation of new jobs and consequent increases in incomes and the revenue base, improvement in the skills of the work force, etc? These are primary benefits resulting from private investment. The new wealth they create would have not existed without the investment.

When all these considerations are taken into account, the vital role of foreign private investment in Latin America's balance of payments position and in its over-all economic performance may be seen with clearer perspective. Satisfactory growth rates require it, and a modernizing thrust cannot be provided to the region's economies without it. This was specifically noted by Dr. Raul Prebisch recently at the Punta del Este meeting of the Governors of the Inter-American Development Bank, where he said, "I assign an important role to private foreign investment, particularly when it is accompanied by technologies not previously available to Latin America, as will continue to be the case in view of the dynamics of technological innovation." As I have already noted, foreign private investment needs to be complemented by a strengthening of the domestic private sector in many countries, and an increasing amount of international attention is being devoted to ways to stimulate this.

The thrust of the economic argument on direct investment is that Latin America pays for more than it gets, that the returns to the local economy do not measure against the costs. This view contracts strikingly with the mounting concern in the United States over the advantages to the U.S. economy of the continued level of foreign investment, including especially the implications of the multinational corporation. I find it hard to understand how such investment can simultaneously be harmful to both economies, the United States and those abroad. But the United States does not measure its policy purely in statistical terms. The great development the United States received from the massive inflow of European capital over the last part of the last century and the first part of this century is not indexed by the level of interest payments and capital remittances we paid back to European investors.

I have covered some of the factual and statistical territory of the U.S.-Latin American trade and balance of payments accounts with you today as a contribution to better discussions of hemispheric economic policy matters. The issues that are involved -- trade, development financing, investment -- are too important to allow folklore to substitute for facts as a basis for public policy decisions. But as I have pointed out, even statistical facts sometimes need to be given appropriate qualifications, interpretations and analytical adjustments if they are to reflect in a balanced way the state of affairs.

When carefully analyzed in this way, the historical record indicates that our trade and payments accounts with Latin America over the past decade have not been seriously out of balance. A balanced appraisal of the contribution of foreign private investment to Latin America's growth also indicates that such investment, properly measured, has been positive and beneficial.

The United States is today engaged in a broad and sincere effort to assist Latin America's own measures to realize its full economic and social potential. This effort springs from many sources, including our long and rich history of hemispheric cooperation. We perceive a profound national interest in strengthening our economic relationships with Latin America, and this perception does not depend on the idea of compensating for imbalances indicated by loosely interpreted statistical indicators. It stems instead from our considered appraisal of the real nature of our on-going economic and political interactions. It is with the understanding of these basic facts that we in the Western Hemisphere should be proceeding to further evolve a balanced approach to our "mature partnership."

ADVANCE FOR RELEASE AT 3 P.M. EDT, TUESDAY, AUGUST 4

U.S. BALANCE OF PAYMENTS WITH THE LATIN AMERICAN REPUBLICS, 1961-1969
(millions of dollars)

	1961	1962	1963	1964	1965	1966	1967	1968	1969
Net Trade Surplus	197	-145	-247	223	48	190	188	331	552
Net Services Surplus	854	957	1044	1178	1271	1430	1487	1613	1508
Net Surplus on Goods and Services	1050	813	798	1401	1319	1620	1676	1944	2060
Net Unilateral Transfers	-262	-293	-399	-373	-451	-402	-394	-413	-405
U.S. Private Capital	-453	-218	-166	-1005	-340	-519	-898	-584	-302
U.S. Government Capital	-703	-501	-378	-247	-332	-361	-414	-648	-540
Foreign Capital	74	112	38	175	41	152	357	57	-287
Net Recorded Transactions	-293	-87	-108	-49	236	489	327	356	526
Adjustments:									
Imports of Venezuelan Oil via 3rd Countries	-200	-200	-200	-200	-200	-200	-200	-200	-200
Special Transactions			-41	-124	-	-203	-376	-111	+340
Net Recorded Transactions Adjusted	-493	-287	-349	-373	36	86	-249	45	666
Errors and Omissions and Transfers between Areas	280	339	-247	-44	-461	-146	-262	-673	-218
U.S. Liquidity Surplus or Deficit(-)1/	-212	52	-595	-417	-426	-59	-512	-628	448
Net Gold Purchases/Sales	-109	176	32	56	17	-39	9	-60	-52
Liquid Liabilities1/	-103	-124	-627	-473	-443	-20	-521	-568	500
Memorandum Item:									
Change in Latin American Dollar and Gold Holdings1/ 2/	160	-115	616	438	361	-50	540	599	-441

1/ Differs from Survey of Current Business presentation by treating investments related to special transactions as though they were liquid liabilities of the U.S. (i.e., as Latin American dollar holdings).

2/ Differs from U.S. liquidity surplus or deficit by amount of Latin American net gold purchases or sales in other areas than the United States.

July 30, 1970

Department of the TREASURY NEWS

HINGTON, D.C. 20220 TELEPHONE WO4-2041

TTENTION: FINANCIAL EDITOF

'OR RELEASE 6:30 P.M.,
/onday, August 3, 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 May 7, 1970 , and he other series to be dated August 6, 1970 , which were offered on July 29, 1970, 'ere opened at the Federal Reserve Banks today. Tenders were invited for $1,800,000,000, r thereabouts, of 91 -day bills and for $1,300,000,000 or thereabouts, of 182-day ills. The details of the two series are as follows:

ANGE OF ACCEPTED OMPETITIVE BIDS:	91 -day Treasury bills maturing November 5, 1970		:	182-day Treasury bills maturing February 4, 1971	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	98.396	6.345%	:	96.749	6.431%
Low	98.370	6.448%	:	96.690	6.547%
Average	98.379	6.413% 1/	:	96.716	6.496% 1/

68% of the amount of 91-day bills bid for at the low price was accepted
63% of the amount of 182-day bills bid for at the low price was accepted

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

District	Applied For	Accepted	:	Applied For	Accepted
Boston	$ 31,500,000	$ 21,500,000	:	$ 18,080,000	$ 8,080,000
New York	2,002,800,000	1,301,040,000	:	1,602,070,000	948,220,000
Philadelphia	48,090,000	23,090,000	:	11,340,000	11,340,000
Cleveland	43,890,000	43,190,000	:	23,190,000	23,190,000
Richmond	18,900,000	16,900,000	:	18,920,000	17,920,000
Atlanta	56,660,000	47,990,000	:	53,360,000	42,540,000
Chicago	143,250,000	132,050,000	:	123,900,000	106,770,000
St. Louis	47,030,000	42,340,000	:	25,560,000	23,360,000
Minneapolis	26,750,000	26,750,000	:	26,270,000	26,270,000
Kansas City	37,300,000	33,150,000	:	29,410,000	26,410,000
Dallas	30,390,000	20,390,000	:	28,830,000	19,460,000
San Francisco	134,350,000	91,810,000	:	95,520,000	46,490,000
TOTALS	$2,620,910,000	$1,800,200,000 a/		$2,056,450,000	$1,300,050,000 b/

a/ Includes $ 347,110,000 noncompetitive tenders accepted at the average price of 98.379
b/ Includes $ 211,690,000 noncompetitive tenders accepted at the average price of 96.716
/ These rates are on a bank discount basis. The equivalent coupon issue yields are 6.61% for the 91-day bills, and 6.81% for the 182-day bills.

Department of the TREASURY

HINGTON, D.C. 20220 TELEPHONE WO4-2041

NEWS

FOR IMMEDIATE RELEASE August 4, 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 13, 1970, in the amount of $3,002,694,000, as follows:

91 -day bills (to maturity date) to be issued August 13, 1970, in the amount of $1,800,000,000, or thereabouts, representing an additional amount of bills dated May 14, 1970, and to mature November 12, 1970, originally issued in the amount of $1,301,580,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,300,000,000, or thereabouts, to be dated August 13, 1970, and to mature February 11, 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 10, 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 August 13, 1970, in cash or other immediately available funds or in a like face amount of Treasury bills maturing August 13, 1970. Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

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

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

Department of the TREASURY

SHINGTON, D.C. 20220 TELEPHONE W04-2041

NEWS

August 4, 1970

FOR IMMEDIATE RELEASE

COMBAT ZONE TAX REGULATION

The Treasury Department announced today that it will publish in the Federal Register on August 5, 1970, a "Notice of Proposed Rule-Making" which will permit uniform tax benefits for military personnel in all combat areas, including those who recently served in Cambodia.

The proposed regulation will make it clear that the present tax benefits are available to members of the armed forces who perform military duties in areas outside a designated combat zone when the duties are in support of the military operations in the zone and entitle the individual to "hostile fire pay" under current military procedures. Such military personnel would thus receive the same tax benefits as those whose duties require them to be physically present in a designated combat zone.

It will apply to the men who served in the Cambodian incursion, and also will cover men who receive hostile fire pay while serving in Laos, or who are eligible for hostile fire pay because of air flights into combat although based elsewhere, such as in Okinawa, in Thailand, or aboard ships in the western Pacific outside of a designated combat zone.

The proposed regulation also interprets the statute as not extending these tax benefits to soldiers who merely stop over in Vietnam while on leave or for other personal reasons unless under Department of Defense regulations they should become entitled to hostile fire pay. This interpretation will apply, however, only to periods of time subsequent to the publication of the notice of rule making.

The proposed regulation will provide greater guidance to the Internal Revenue Service in its application of the 1965 Executive Order which designated Vietnam as a combat zone.

The text of the proposed rule is attached.

Attachment

August 4, 1970

BACKGROUND INFORMATION
COMBAT ZONE REGULATION

The Treasury Department today announced the publication of a proposed income tax regulation that will confer combat zone tax benefits on members of the armed forces who, although serving outside Vietnam, come under the risk of hostile fire while supporting Vietnamese military operations.

The proposed regulations will appear in the Federal Register for August 5, 1970. Under the new regulations, combat zone tax benefits will be granted to members of the armed forces who support Vietnamese military operations in areas outside Vietnam itself, under conditions which qualify those members for "hostile fire pay." Under the regulatory amendments, those who have served in Cambodia and Laos will be eligible for combat zone tax benefits. The same benefits will also go to air crews who have qualified for hostile fire pay while supporting Vietnamese operations from areas such as Thailand and Okinawa.

The principal combat zone tax benefits are the Section 112 combat pay exclusion and the death benefits provided by Sections 692 and 2201 of the Internal Revenue Code. The combat pay exclusion exempts all enlisted and warrant officers' pay from Federal income tax, and up to $500 per month in commissioned officers' pay. Section 692 forgives income taxes owed by persons killed as a result of service in a combat zone, and Section 2201 provides a reduced estate tax rate in those cases.

The proposed regulations will apply automatically in the case of those who served in Cambodia this year. In addition, the regulations will permit income tax refunds for taxable years that are open under the applicable statute of limitations. In general, this means that members of the armed forces who have qualified for hostile fire pay while supporting Vietnamese operations in areas such as Laos and Thailand will be able to claim tax refunds for each of the past three calendar years. In a few cases, the applicable limitations rules may permit refunds for earlier periods. Refund claims should be sent to the Internal Revenue Service Center for the area in which the taxpayer permanently resides.

The proposed regulations also contain a provision designed to curb abuses of the existing combat zone tax exclusions. Under present interpretations of the law, members of the armed forces become eligible for combat zone tax benefits if they merely fly through the airspace over a combat zone or make an in-transit stop or layover at an airport in a combat zone. These tax benefits are also available if a member of the armed forces voluntarily enters a combat zone while on leave. If a person visits a combat zone on temporary official duty or flies over a combat zone on a mission which qualifies him for hostile fire pay, combat zone tax benefits are appropriate. But these benefits are generally not appropriate in other cases. Consequently, the proposed regulations will terminate allowance of combat zone tax benefits in the case of trips made in the future in which a member of the armed forces merely passes through the airspace over a combat zone, or makes an in-transit stop or layover for his own convenience in a combat zone, without performing official temporary duty or qualifying for hostile fire pay. In addition, persons who voluntarily enter combat zones while on leave will generally no longer be eligible for combat zone tax benefits. The following are examples of the way in which the proposed rules will apply:

1. Service in Cambodia. An enlisted member of the armed forces performed service in Cambodia in May 1970 and qualified for hostile fire pay as a result of such service. Under the proposed rules, this individual may exclude from gross income his military pay for the month of May. If he was killed in Cambodia, or died as a result of wounds, disease or injuries received in Cambodia, his survivors would be entitled to the income tax benefits of Section 692 and the estate tax benefits of Section 2201 of the Internal Revenue Code.

2. Air Crews. An officer who was a member of an air crew operating from bases in Thailand qualified for hostile fire pay in June 1970 as a result of flying a mission which drew fire over Cambodia on June 2. Under the proposed rules, he is eligible to exclude from gross income up to $500 in military pay for the month of June 1970. Furthermore, if he was killed during the June 2 mission or died as a result of wounds or injuries received during that mission (including takeoff and landing portions of the mission), his survivors are eligible for income and estate tax benefits under Sections 692 and 2201. However, if he died on June 13 as a result of an automobile accident during an inspection trip in Thailand, the Sections 692 and 2201 benefits would not apply, because a Thai inspection trip will not qualify him for hostile fire pay. He would, however, be entitled to hostile fire pay through the date of death since he qualified for hostile fire pay for the month of June.

3. Flyovers and Visits. A member of the armed forces flies from Okinawa to Bangkok in October 1970 and passes through Vietnamese airspace during the flight. The plane is not fired on and the individual does not qualify for hostile fire pay as a result of the flight. Under the proposed rules, the individual would not be entitled to combat zone tax benefits. The result would be the same even if he made an in-transit layover in Saigon for five or fewer days, without qualifying for hostile fire pay. However, if the individual had qualified for hostile fire pay as a result of a hostile attack on the plane, he would be entitled to combat zone tax benefits, including exclusion from gross income of his military pay for the month of October 1970 and Sections 692 and 2201 death benefits for his survivors if he were killed as a result of the attack on his plane.

4. Temporary Official Duty. A military courier flies to Saigon on temporary duty during October 1970. He remains only two days and for that reason does not qualify for hostile fire pay. Nevertheless, under the existing law and under the proposed rules, the courier is entitled to Section 112 benefits for October 1970, and his survivors and entitled to Sections 692 and 2201 benefits if he is killed during his stay in Saigon.

5. Leave. A member of the armed forces who is assigned to a unit based in Okinawa voluntarily visits Vietnam in November 1970 while on leave. Under the proposed rules, he is not entitled to combat zone tax benefits. However, if this individual came under hostile fire while visiting Vietnam and qualified for hostile fire pay, he would be entitled to combat zone benefits. In addition, if the same individual were later permanently reassigned to a unit in Vietnam and took leave in Vietnam during the period of his assignment, his combat zone benefits would continue while he was on leave in Vietnam.

PUBLIC LAW 88-132-OCT. 2, 1963 (77 STAT.)
37 USC 301-309

SPECIAL PAY FOR DUTY SUBJECT TO HOSTILE FIRE

Section 9. (a) Chapter 5 of title 37, United States Code, is amended as follows:

(1) The following new section is added after section 309:

"§310. Special pay: duty subject to hostile fire

"(a) Except in time of war declared by Congress, and under regulations prescribed by the Secretary of Defense, a member of a uniformed service may be paid special pay at the rate of $55 a month for any month in which he was entitled to basic pay and in which he--

"(1) was subject to hostile fire or explosion of hostile mines;

"(2) was on duty in an area in which he was in imminent danger of being exposed to hostile fire or explosion of hostile mines and in which, during the period he was on duty in that area, other members of the uniformed services were subject to hostile fire or explosion of hostile mines; or

"(3) was killed, injured, or wounded by hostile fire, explosion of a hostile mine, or any other hostile action.

A member covered by clause (3) who is hospitalized for the treatment of his injury or wound may be paid special pay under this section for not more than three additional months during which he is so hospitalized.

"(b) A member may not be paid more than one special pay under this section for any month. A member may be paid special pay under this section in addition to any other pay and allowances to which he may be entitled.

"(c) Any determination of fact that is made in administering this section is conclusive. Such a determination may not be reviewed by any other officer or agency of the United States unless there has been fraud or gross negligence. However, the determination may be changed on the basis of new evidence or for other good cause.

"(d) The Secretary of Defense shall report to Congress by March 1 of each year on the administration of this section during the preceding calendar year."

(2) The following new item is inserted in the analysis:

"310. Special pay: duty subject to hostile fire."

(b) The Combat Duty Pay Act of 1952 (50 App. U.S.C. 2351 et seq.) is repealed.

DEPARTMENT OF THE TREASURY

INTERNAL REVENUE SERVICE

TREATMENT OF CERTAIN COMBAT PAY OF MEMBERS OF THE ARMED FORCES

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 7805 of the Internal Revenue Code of 1954 (68A Stat. 917; 26 U.S.C. 7805).

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

Treatment of certain combat pay of members of the Armed Forces

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 clarify the Income Tax Regulations (26 CFR Part 1) under section 112 of the Internal Revenue Code of 1954, such regulations are amended as follows:

Section 1.112-1 is amended by adding immediately after paragraph (i) new paragraphs (j) and (k). These amended provisions read as follows:

§ 1.112-1 Compensation of members of the Armed Forces of the United States for service in a combat zone during an induction period, or for service while hospitalized as a result of such combat-zone service.

*   *   *   *   *

(j) Persons who perform military duties in areas outside an area designated as a combat zone by Executive order, which duties are in support of military operations in such zone and are performed under conditions which qualify such persons for Hostile Fire Pay (as authorized under section 9 (a) of the Uniformed Services Pay Act of 1963 (37 U.S.C. 310)), shall, during the period of such qualifying service, be deemed to be performing service in such combat zone.

(k) (1) Active service is "performed in a combat zone" provided either--

(i) That an individual is physically present in such zone by reason of the performance of military duties, or

(ii) That as a result of physical presence in such zone such person qualifies for Hostile Fire Pay (as authorized under section 9 (a) of the Uniformed Services Pay Act of 1963 (37 U.S.C. 310)).

(2) For periods subsequent to the date of publication of this notice as a Treasury decision, an individual will not be considered to be physically present in a combat zone "by reason of the performance of military duties" merely because--

(i) Such individual is physically present in a combat zone while on leave from a duty station which is not located inside a combat zone or is otherwise present solely for his own personal convenience, or

(ii) During the course of a trip between two points both of which lie outside a combat zone, such individual passes through the airspace over a combat zone.

This subparagraph shall not apply to individuals who are assigned to units in a combat zone or who are ordered on official temporary duty to a combat zone.

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

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

DESCRIPTION	AMOUNT ISSUED 1/	AMOUNT REDEEMED 1/	AMOUNT OUTSTANDING 2/	OUTSTANDING OF AMOUNT ISSUED
TURED				
;eries A-1935 thru D-1941	5,003	4,997	6	.12
;eries F and G-1941 thru 1952	29,521	29,489	32	.11
;eries J and K-1952 thru 1957	3,754	3,738	16	.43
MATURED				
;eries E 3/ :				
1941	1,893	1,686	206	10.88
1942	8,351	7,449	902	10.80
1943	13,432	12,016	1,416	10.54
1944	15,676	13,937	1,740	11.10
1945	12,328	10,796	1,532	12.43
1946	5,600	4,735	865	15.45
1947	5,320	4,351	969	18.21
1948	5,506	4,421	1,086	19.72
1949	5,446	4,297	1,149	21.10
1950	4,765	3,704	1,061	22.23
1951	4,119	3,202	917	22.26
1952	4,314	3,332	982	22.76
1953	4,930	3,728	1,203	24.40
1954	5,026	3,736	1,291	25.69
1955	5,237	3,842	1,395	26.64
1956	5,061	3,673	1,389	27.45
1957	4,768	3,402	1,366	28.65
1958	4,654	3,207	1,447	31.09
1959	4,363	2,954	1,409	32.29
1960	4,373	2,846	1,527	34.92
1961	4,439	2,747	1,691	38.09
1962	4,296	2,555	1,741	40.53
1963	4,789	2,649	2,140	44.69
1964	4,667	2,609	2,058	44.10
1965	4,563	2,529	2,034	44.58
1966	4,915	2,580	2,335	47.51
1967	4,866	2,463	2,403	49.38
1968	4,616	2,188	2,429	52.62
1969	4,321	1,638	2,683	62.09
1970	1,294	162	1,132	87.48
Unclassified	848	1,131	- 283	-
Total Series E	168,777	124,566	44,211	26.19
:ries H (1952 thru May, 1959) 3/	5,485	3,659	1,826	33.30
H (June, 1959 thru 1970)	7,475	2,211	5,264	70.42
Total Series H	12,960	5,870	7,090	54.71
Total Series E and H	181,736	130,436	51,300	28.23
l Series Total matured	38,277	38,224	54	.14
Total unmatured	181,736	130,436	51,300	28.23
Grand Total	220,014	168,660	51,354	23.34

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

Department of the TREASURY NEWS

HINGTON, D.C. 20220 TELEPHONE WO4-2041

August 7, 1970

FOR IMMEDIATE RELEASE

HURRICANE CELIA

The Treasury announced today that at the direction of Secretary David M. Kennedy, the Department is moving quickly to be of maximum assistance to victims of Hurricane Celia.

Sidney S. Sokol, Commissioner of the Department's Bureau of Accounts, disclosed that emergency Treasury disbursing offices will begin operations on Monday, August 10, in space provided by the Small Business Administration in its disaster loan headquarters in Corpus Christi, Texas. Treasury personnel will work side by side with SBA loan specialists and will issue checks to the storm victims within a few minutes after SBA has approved their loan authorizations.

Quick action has also been taken by the Department to speed replacement of, or payment for, U.S. Savings Bonds and Freedom Shares lost, stolen or destroyed in the area of Texas adversely affected by the storm. Under the emergency procedure, the six-month waiting period on replacement of lost Bonds and Freedom Shares has been waived. At the same time, the Treasury has authorized paying agents to pay any Series E Bonds in hardship cases, even though the Bonds have not been held the required 60 days, or any Savings Note (Freedom Share), even though the Note has not been held one year from date of issue.

Comptroller of the Currency William B. Camp, as administrator of national banks, has pledged all possible cooperation to banks affected by the hurricane damage. Regulations governing bank operations will be interpreted sympathetically to help banks maintain whatever services they can offer and to assist in the restoration of full banking services as quickly as possible.

(OVER)

The Treasurer of the United States, Mrs. Dorothy Andrews Elston, has assigned priority to the settlement of claims for the loss or destruction of Government checks covering annuities, salaries, or other payments, and to claims resulting from the damage of currency. Mrs. Elston has directed that special attention be given to cases involving hardship.

Commissioner of Internal Revenue Randolph W. Thrower issued a reminder that certain tax relief measures are available to victims of the disaster. In addition to casualty loss deductions available under Federal tax laws to those filing calendar year returns, fiscal year taxpayers may deduct their losses if the hurricane occurred after the end of their tax year but before the due date of their tax returns. Those taxpayers who are required to file declarations of estimated tax may amend their declarations on or before September 15, 1970, to reflect any decrease in estimated tax as a result of casualty losses.

THE HISTORIC U. S. TREASURY BUILDING

The impatience of President Andrew Jackson played a vital role in determining the location of today's historic Treasury Building.

Disgusted with the delays in selecting the site for the new Treasury, President Jackson stalked across the street from the White House, stuck his cane in the dirt, and said, "Here, right here, I want the cornerstone laid." And there it was laid.

As the architect, Robert Mills, said, "The precise position of the building was determined by the positive directions of the President."

However, the building that "rose from Jackson's cane" was not the first Treasury Building. The original building was occupied in 1800 and housed the Treasury employees, some personnel from the Navy Department, and the entire seven-man staff of the State Department. This early structure, which was located on the east side of the present Building site, was burned by the British in 1814.

A second building was constructed on the site shortly thereafter, and stood until it was destroyed by an early morning fire in 1833.

Congress then authorized the construction of a "fireproof building of such dimensions as may be required for the present and future accommodations" of the Treasury Department. After Jackson selected the site, construction started and the building was completed in 1842. Extension were added in 1855, 1861, and 1869 to provide the Treasury with the structure which exists today.

Since the Civil War, parts of the building have been used for a President's office, an inaugural ball, and even a shelter for the President in case of enemy attack.

After the assassination of Abraham Lincoln, an office on the third floor of the Treasury was used as the Chief Executive's office by the President Andrew Johnson. At the time, Johnson felt that it would be a hardship on Mrs. Lincoln to have to move out of the White House immediately, so he occupied the adjoining office to that of the Secretary of the Treasury.

Because Mrs. Lincoln suffered a grave nervous collapse after the assassination, it was almost eight weeks after her husband's death before she completed the move from the White House.

Probably the most memorable document issued by President Johnson from his desk in the Treasury was the famous Reconstruction Proclamation. It granted amnesty and restoration of all rights of property to participants in the War between the States.

The Cash room in the Treasury Building was the scene of the 1869 Inaugural Ball for President Ulysses S. Grant. The elaborate room was relatively small, and when a larger than anticipated crowd arrived, chaos prevailed. In the jam, many women lost their escorts. Near the end of the ball, the throngs at the cloakroom prevented most guests from obtaining their wraps -- and at ten o'clock the next morning nearly a thousand people were still clamoring for their hats and coats. Among those most angered was Horace Greely who left cursing Washington and its Inaugural Balls.

One of the Treasury Building's most devoted officials was F.E. Spinner who served as Treasurer of the United States from 1861-1875. Awakening at his home one night with a strong impression that something was wrong at the Treasury, Spinner got up at two o'clock in the morning and decided to go to the Treasury to see for himself. On his way, he met a watchman from the Department, who was hastening to arouse him with the information that the door of one of the vaults had just been found standing wide open. Shortly thereafter, Spinner acquired the nickname of "Watchdog of the Trearury," for he converted an adjoining Treasury room into an apartment, and started sleeping in the building to see that the nation's money was safe.

During World War II, Franklin Roosevelt had one of the rooms in the Treasury vault converted into an office which he could enter from a White House tunnel in case of enemy attack. Similar facilities were also set up to provide the Cabinet a place of safety in case that became necessary.

The Treasury Building still stands much as it did after the last extension was completed in 1869.

The original cornerstone is no longer visible, for it has since been covered by the addition of a new exterior wall. However, much history is still to be found within the building. Most recently, a new exhibit hall was opened which recaptures much of the two-hundred year history of the Department.

The room in which Andrew Johnson ran the country for eight weeks, still contains some of his original furniture, as well as authentic newspaper etchings of Presidential meetings in the Treasury. The room of the Director of the Mint contains furniture from the San Francisco office of the Mint which survived the San Francisco earthquake and fire.

oOo

Department of the TREASURY

INGTON, D.C. 20220 TELEPHONE WO4-2041

NEWS

FOR IMMEDIATE RELEASE August 7, 1970

TREASURY DEPARTMENT REVOKES SANSINENA'S COASTWISE WAIVER

The Treasury Department today made the following announcement:

> The waiver of coastwise trading restrictions on the tanker SS Sansinena has been revoked.
>
> The waiver was granted on March 2, 1970, and suspended on March 10. Treasury then began an administrative review of the case. The waiver was revoked because the Treasury Department subsequently was advised by the Maritime Administration that granting of the waiver at this time could jeopardize attainment of an adequate domestic ship construction capability. Development of long-range construction capability is a goal of this Administration. Further, in its advisory dated June 11, 1970, the Maritime Administration stated that existing shipyards have facilities capable of meeting current U.S. flag requirements.
>
> Should these circumstances or conditions change, the situation can be re-examined with a view to determining whether waivers under the Jones Act might be called for.
>
> Arguments that the Secretary of the Treasury lacked statutory authority to grant a waiver or that granting of a waiver cannot be substantiated as being in the interest of national defense were found to be without merit, in the review proceedings. However, the review found the arguments of the Maritime Administrator compelling.
>
> A copy of the Treasury decision is attached.

Attachment

K-465

TREASURY DECISION IN THE MATTER OF THE SS SANSINENA

In an application to the Treasury Department dated August 5, 1969, Union Oil Company of California requested a waiver of the coastwise trading restrictions on the tanker SS SANSINENA, with intention to use the ship under American registry primarily for the transportation of Alaskan crude oil to West Coast refineries.

The tanker was built by the Newport News Shipbuilding & Drydock Co., Newport News, Virginia, and was delivered to the owner, Barracuda Tanker Corporation of Hamilton, Bermuda, on October 24, 1958. The vessel has a speed of 17.5 knots and is of 70,700 dead weight tons. Its cargo capacity is 488,000 barrels and its draft just under 47 feet. It carries a crew of 36 men. The vessel is registered under Liberian flag. It is chartered by the Barracuda Tanker Corporation to the Union Oil Company of California.

Under Section 27 of the Merchant Marine Act of 1920 (46 U.S.C. 883), as amended, no merchandise may be transported by water between points in the United States in any other vessel than a vessel built in and documented under the laws of the United States and owned by persons who are citizens of the United States, and no vessel built in the United States and later sold foreign or placed under foreign registry may thereafter acquire the right to engage in the coastwise trade. However, the Act of December 27, 1950, authorizes the head of any department responsible for the administration of the navigation laws to waive compliance with such laws whenever he deems that such action is necessary in the interest of national defense.

On March 2, 1970, the Treasury Department, acting in the interest of national defense, waived the restrictions against engaging in the coastwise trade imposed on the SS SANSINENA with the understanding and upon the conditions that (1) the vessel would be documented under the laws of the United States, (2) it would be owned by a United States corporation, all of the stockholders of which would be citizens of the United States, (3) it would be manned by American-licensed and unlicensed crews, and (4) it would be used primarily for the transportation of Alaskan crude oil to West Coast refineries.

After the waiver was granted, allegations were made that it could have a disruptive effect on the new maritime program recommended by the President to the Congress. On March 10, 1970, the Secretary of the Treasury suspended the waiver stating that he was doing so because of questions which had arisen over the merits of the case since the waiver was granted and indicating his intention to initiate an administrative review of the waiver action.

II.

In addition to submissions from the public, comments were sought and received by the Treasury Department from the Maritime Administration. In a letter dated June 11, 1970, the Honorable A. E. Gibson, Maritime Administrator, stated that the coastwise laws are part of the country's vital maritime policy and that their integrity should be preserved in the absence of overriding national defense considerations. He also stated that if a shortage of U.S. bottoms threatened serious harm to the nation's economy, the Maritime Administration would consider this possible grounds for supporting a limited entry into domestic trade of foreign-flag vessels until that situation were remedied.

Mr. Gibson pointed out, however, that it is difficult to predict long-range trends for tanker requirements because of possible major shifts in oil delivery patterns. He indicated that a projected strain on United States tanker capacity was expected to come from demands to carry oil from the North Slope of Alaska but pointed out that the completion of the pipeline from the North Slope to Valdez has been postponed.

He advised that it would appear that anticipated tanker demands for the next decade could reasonably be expected to be met with our present tanker fleet and the projected capacity of U.S. shipyards. His letter concluded:

> "As a result, attainment of an adequate ship construction capability -- one of the goals of the new maritime program -- could, under present circumstances, be jeopardized by the

> grant of a waiver at this time for tankers otherwise ineligible for operation in the coastwise trade.
>
> "Should, however, circumstances or conditions change that would indicate that our shipyards are unable to meet the projected need for the carriage of this country's oil and that such situation could threaten our nation with serious economic harm, we would have to review the record and to decide on the facts and circumstances then available whether subsequent waivers of the Jones Act might be justified."

III.

The Treasury Department has carefully considered all the arguments submitted by all persons in connection with its review. The arguments that the Secretary of the Treasury lacks statutory authority to grant the waiver and that the waiver cannot be substantiated as being in the interest of national defense are considered without merit. The opinion, on the other hand, of the Maritime Administrator as to the adverse effect of the granting of the waiver on United States maritime policy is compelling. For this reason, the waiver for the SS SANSINENA, granted on March 2, 1970, will be revoked.

oOo

Department of the TREASURY NEWS

HINGTON, D.C. 20220 TELEPHONE WO4-2041

TTENTION: FINANCIAL EDITOR

OR IMMEDIATE RELEASE

August 7, 1970

PRELIMINARY RESULTS OF CURRENT TREASURY OFFERING

Preliminary reports indicate that the Treasury, in its current combination xchange and cash offering, will raise a net of some $1.9 billion of cash on ugust 17, when $6.5 billion of maturing notes and bonds, of which $5.6 billion are eld by the general public and $0.9 billion are held by Federal Reserve Banks and overnment accounts, will be payable.

XCHANGE OFFERING

The general public has exchanged $4.5 billion of the $5.6 billion eligible ecurities held by it for new notes maturing in February 1974 and August 1977, leaving 1.1 billion, or 19.4% of the eligible securities unexchanged.

The following is a summary of the exchanges by the public (in millions of dollars):

ELIGIBLE FOR EXCHANGE		TO BE ISSUED			UNEXCHANGED	
escription	Total	7-3/4% Notes 2/15/74	7-3/4% Notes 8/15/77	Total	Total	% of Eligible
-3/8% notes	$1,948	$1,103	$ 561	$1,664	$ 284	14.6
% bonds	3,657	1,721	1,131	2,852	805	22.0
Totals	$5,605	$2,824	$1,693	$4,517	$1,088	19.4

In addition, Federal Reserve Banks and Government accounts have exchanged $0.6 illion of eligible securities held by them, $0.1 billion for the notes maturing in ebruary 1974 and $0.5 billion for the notes maturing in August 1977.

ASH OFFERING

The general public has subscribed for a total of $18.8 billion of the offering of 2.75 billion, or thereabouts, of new notes maturing in February 1972. Subscriptions rom commercial banks for their own account totaled $11.3 billion and all other ubscriptions from the public totaled $7.5 billion.

Subscriptions totaling $3.0 billion have been accepted. Subscriptions up to 200,000 are being allotted in full; other subscriptions are subject to a 9½ % llotment with a minimum allotment of $200,000 per subscription.

In addition, $0.2 billion of the new notes maturing in February 1972 are being llotted to Federal Reserve Banks and Government accounts in exchange for maturing ecurities held by them.

Department of the TREASURY

SHINGTON, D.C. 20220 TELEPHONE WO4-2041

NEWS

ADVANCE FOR RELEASE AT 3 P.M. EDT SUNDAY, AUGUST 9

REMARKS OF THE HONORABLE CHARLS E. WALKER
UNDER SECRETARY OF THE TREASURY
BEFORE THE TAX SECTION OF THE
AMERICAN BAR ASSOCIATION
ST. LOUIS, MISSOURI
AUGUST 9, 1970

When future ecologists get around to the job of tracing the ups and downs of this nation's efforts against air pollution, the month of July 1970 may well come in for special attention.

Thermal inversion--high temperatures and little wind--trapped smog and polluted air at close to ground level in major cities all along the east coast. There were widespread reports of eye irritation and an increase in complaints about respiratory ailments.

City officials, attempting to deal with this massive health hazard, warned older people with respiratory problems to remain indoors. Some cities limited municipal and private power generation because of the pollutants being spewed into the air by the fuels burned to create the power. Others considered restricting automobile traffic in congested areas.

These developments all received extensive coverage in the news media. Yet, another event took place during the last part of July that will be of even more interest to ecologists in the years ahead.

While the smog was still hovering over the nation's capital, the Administration formally submitted to Congress its proposal to reduce automobile exhaust pollution by taxing the lead additives in gasoline.

The Administration's proposal to tax lead additives, called the "Clean Air Tax Act of 1970," is a clear challenge to all of us to "get the lead out" and start cleaning the air we breathe.

As the President has stated, "Air is our most vital resource, and its pollution is our most serious environmental problem. Most air pollution is produced by burning fuels. About half is produced from motor vehicles."

Much research has been done on the various aspects of exhaust-created pollution from combustion engines, much more is now in progress. Hopefully, none of us will see the day when such research stops. But we cannot wait until the last report is filed on the last research project on the last phase of this problem. If we do, we may well be too late.

In the meantime we have every reason to believe that lead levels in the atmosphere are rising. Although inconclusive, there are growing indications that this development can cause serious health problems for the nation. Moreover, there is no doubt that there is a direct correlation between the lead level in a given area and the volume of gasoline sold in that area.

The time to step up the battle against air pollution is now. And a very good place to start is with lead additives in gasoline.

The Administration's proposal is quite simple. We recommend that a tax of $4.25 be imposed on each pound of lead used as additives in gasoline.

This straightforward approach will help insure that the 1975 model automobiles will meet the low emission requirements set for that date by the Federal Government.

Obviously, in meeting this problem we must also take the time to consider sympathetically the problems that will result for those plants that now make lead additives for gasoline. It is conceivable that these plants will need help in order to convert their operations.

Lead has played a key role in enabling gasoline refiners to meet the high octane requirements of the high compression engines produced by the auto industry. Lead is the cheapest way to increase the octane rating of gasoline.

Without the tax, gasoline producers would have less incentive to develop the substitute approaches necessary to meet the octane requirements. This is critical to the long-run success of our efforts to eliminate air pollution, because it will help assure car manufacturers that such gasoline will be widely available by the time the cars are on the market.

By passing this tax quickly--and the Administration will do all it can to seek its passage by Congress as soon as possible--the signal to all parties will be loud and clear.

Fast action is imperative. From the standpoint of the oil industry, they cannot completely convert refinery capacity overnight to non-leaded gasoline. It will mean new refining and blending procedures. Some major conversion and construction programs will have to be undertaken and in some cases this could take up to 24 months between the decision and the activation of new facilities.

The automobile industry must gear up to produce the engines that will run on low octane non-leaded fuel. These decisions, which will be irrevocable, must be made early in 1971 if the various parts of the total approach are to be in place by late 1974.

We have all heard quite a bit lately about the lead in gasoline, but you might be interested in a few points that have not been stressed in public. First, as much as 90 percent of the solid matter spouted into the air from auto exhausts is made up of lead compounds.

However, the problem does not stop there. Experiments have shown that it is extremely difficult to devise exhaust controls to reduce other emissions when a leaded gasoline is used. The lead salts foul up the equipment designed to reduce other waste generated by the engine. Some such devices can be made inoperative with one tank of leaded gasoline.

A firm decision by Congress to tax lead additives will enable engineers to design the necessary equipment, knowing beforehand the type of fuel and the type of engine that will be in use in the years ahead.

What will the cost of the non-leaded gas be at the pump? Estimates vary, but the average increase is about 2¢ per gallon. If you figure that out, it comes to about 30¢ per week or approximately $15 per year. However, this figure can be misleading because the average motorist might well save that much in maintenance costs by using lead-free gasoline.

On this subject, another point should be made. Many drivers today are wasting money on the gasoline they buy. Only 32 percent of the cars on the road at the present time require premium -- 100 octane -- gasoline; yet 43 percent of the gasoline sold is premium. The extra cost brings no extra benefits to the motorists who could use regular gasoline -- 94 octane.

The emphasis on the lead in gasoline and the octane ratings will encourage more drivers to find out about the requirements of their own cars and pay more attention to their fuel selections.

What will the tax mean in terms of revenue to the Treasury? That is always a consideration in tax matters, and particularly now when we are faced with the problem of increased spending and reduced income. We estimate that during the first year the tax will produce additional revenue of $1.6 billion. Unlike other taxes, the revenue will not increase with the growth of the economy. Instead, the revenue will diminish as refiners switch to the production of non-leaded gasoline.

In summarizing these remarks, I want to stress 3 points.

First, it would be extremely difficult to make substantial headway in controlling air pollution with the continued use of lead additives in gasoline.

Second, unless Congress, through the adoption of the Clean Air Tax Act of 1970, assures all interested parties that lead-free gasoline will be available in the near future, they will not have a firm base for research and planning.

My third and final point is this. The Administration has given this legislation high priority. We plan to make every effort to get this tax enacted during the current session of Congress.

I believe that we will succeed. In so doing, we will take a vital step in the battle to clean up our air.

oOo

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

ADVANCE FOR RELEASE AM'S
TUESDAY, AUGUST 11, 1970

TREASURY DEPARTMENT ANNOUNCES APPOINTMENTS IN INTERNATIONAL DIVISION REORGANIZATION

Secretary of the Treasury David M. Kennedy today announced three appointments within the Office of the Assistant Secretary for International Affairs.

Appointed were Donald A. Webster of Washington, D.C., as Deputy Assistant Secretary for Trade and Investment; Wilson E. Schmidt of Blacksburg, Virginia, as Deputy Assistant Secretary for Research, and John M. Hennessy of Cambridge, Massachusetts, as Deputy Assistant Secretary for Development Finance.

The new appointments coincide with an impending reorganization in the Office of the Assistant Secretary for International Affairs, designed to increase Treasury's contribution to international economic, finance and trade policies.

Mr. Webster was Assistant to Secretary Kennedy prior to the new appointment. In his new post, he will aid Assistant Secretary for International Affairs John R. Petty in the formulation and implementation of policies dealing with foreign trade, commerce, capital markets and investments. He will also be Acting Assistant Secretary for International Affairs in Mr. Petty's absence.

Before joining the Treasury, Mr. Webster participated in studies on the Nixon-Agnew Key Issues Committee, having previously been Minority Staff Economist for the Joint Economic Committee of the Congress from 1962 to 1968. He was also a research writer for Congressional Quarterly.

Mr. Webster's prior government service also included a period as research assistant to Senator Frederick G. Payne of Maine (1955-56) and as Assistant to the Assistant Administrator for Congressional and Public Affairs, General Services Administration (1961-62). From 1955 to 1959 he was on active duty in the Navy as a reserve officer in photo intelligence.

Born in Rochester, New York, he holds degrees from Hamilton College, Clinton, New York, and Johns Hopkins School of Advanced International Studies.

Mrs. Webster is the former Helen Long of Falmouth, Massachusetts.

Mr. Schmidt, who will assume his post as the new Deputy Assistant Secretary for Research in early September, will be primarily responsible for directing major policy research studies on the variety of international monetary, economic and financial issues with which the Department is concerned.

Mr. Schmidt, 43, is currently Professor and Head of the Department of Economics at Virginia Polytechnic Institute and State University where he has been associated since 1966. Prior to that time, Mr. Schmidt was a member of the economics faculty at George Washington University where, during his last year, he chaired the Department.

An authority in the areas of international economics and economic development, Mr. Schmidt, in 1960, was visiting Professor of economic development at the School of Advanced International Studies of Johns Hopkins University, Washington, D.C. From 1963 to 1965 he was visiting Professor at the University's Center in Bologna, Italy.

He holds degrees from the University of Maryland, the University of Pittsburgh and the University of Virginia.

He is married to the former Eleanor Parker of Hyattsville, Maryland. The Schmidt's have three sons.

The responsibility of Mr. Hennessy, who will assume the post of Deputy Assistant Secretary for Development Finance in mid-September will be primarily within the area of development assistance, focusing on U.S. relations with the multi-lateral lending institutions.

Mr. Hennessy, 34, a native of Boston, is currently with Arthur D. Little, Inc., of Cambridge, Massachusetts, consulting on development programs in Latin America.

He joined the First National City Bank, New York, in 1958 working in New York, Argentina, Uruguay and Paraguay. Subsequently, he was manager of the bank's offices in La Paz, Bolivia and Lima, Peru.

He graduated magna cum laude from Harvard in 1958 and is currently completing his thesis for a Ph.D. at Sloan School of Management, Massachusetts Institute of Technology, where is is also a course instructor.

Mrs. Hennessy, a native of Paraguay, is the former Margarita Cassacia. The Hennessy's have a son, Michael, and a daughter, Alexandra.

oOo

Department of the TREASURY

INGTON. D.C. 20220 TELEPHONE W04-2041

NEWS

ADVANCE FOR RELEASE AM'S
TUESDAY, AUGUST 11, 1970

REX BEACH NAMED ASSISTANT TO TREASURY SECRETARY

Treasury Secretary David M. Kennedy today announced the promotion of Rex Beach to Assistant to the Secretary, succeeding Donald A. Webster.

Mr. Beach was formerly Deputy Assistant to the Secretary and Director of the Executive Secretariat.

Before coming to the Treasury, he was an Assistant Professor of Economics at Arizona State University and previously served as legislative assistant to Senator James B. Pearson of Kansas.

A native of Kansas City, Kansas, Mr. Beach attended Cornell University and Kansas State University, receiving his B.A. from Kansas State. He also attended the Justus Liebig Universitaet, Giessen, West Germany, as an exchange student. He received his M.A. degree in international relations from John Hopkins University, and his Ph.D. in economics from Brown University.

Mr. Beach, his wife and three sons live in McLean, Virginia.

oOo

K-468

Department of the TREASURY NEWS

HINGTON, D.C. 20220 TELEPHONE W04-2041

ATTENTION: FINANCIAL EDITOR

FOR RELEASE 6:30 P.M.,
Monday, August 10, 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 May 14, 1970 , and the other series to be dated August 13, 1970 , which were offered on August 4, 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 November 12, 1970		182-day Treasury bills maturing February 11, 1971	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv. Annual Rate
High	98.365 a/	6.468%	96.638	6.650%
Low	98.342	6.559%	96.618	6.690%
Average	98.354	6.512% 1/	96.622	6.682% 1/

a/ Excepting 3 tenders totaling $1,260,000
83% of the amount of 91-day bills bid for at the low price was accepted
43% of the amount of 182-day bills bid for at the low price was accepted

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	Applied For	Accepted
Boston	$ 31,480,000	$ 21,480,000	$ 18,690,000	$ 6,690,000
New York	1,794,870,000	1,186,360,000	1,846,540,000	939,410,000
Philadelphia	52,540,000	27,540,000	11,980,000	11,680,000
Cleveland	39,010,000	39,010,000	30,490,000	29,770,000
Richmond	20,970,000	20,970,000	32,850,000	15,850,000
Atlanta	46,510,000	42,340,000	31,440,000	18,390,000
Chicago	212,570,000	209,850,000	145,960,000	50,240,000
St. Louis	41,550,000	39,250,000	25,640,000	20,170,000
Minneapolis	27,710,000	16,710,000	24,720,000	7,660,000
Kansas City	36,070,000	36,050,000	21,480,000	19,680,000
Dallas	28,770,000	19,770,000	30,500,000	17,300,000
San Francisco	166,060,000	140,720,000	254,220,000	164,400,000
TOTALS	$2,498,110,000	$1,800,050,000 b/	$2,474,510,000	$1,301,240,000 c/

Includes $380,180,000 noncompetitive tenders accepted at the average price of 98.354
Includes $210,520,000 noncompetitive tenders accepted at the average price of 96.622
These rates are on a bank discount basis. The equivalent coupon issue yields are 6.71% for the 91-day bills, and 7.01% for the 182-day bills.

Department of the TREASURY

SHINGTON, D.C. 20220 TELEPHONE WO4-2041

NEWS

FOR IMMEDIATE RELEASE

August 11, 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 20, 1970, in the amount of $2,987,355,000, as follows:

91-day bills (to maturity date) to be issued August 20, 1970, in the amount of $1,800,000,000, or thereabouts, representing an additional amount of bills dated May 21, 1970, and to mature November 19, 1970, originally issued in the amount of $ 1,303,530,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,300,000,000, or thereabouts, to be dated August 20, 1970, and to mature February 18, 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 17, 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 August 20, 1970, in cash or other immediately available funds or in a like face amount of Treasury bills maturing August 20, 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

HINGTON, D.C. 20220   TELEPHONE WO4-2041

NEWS

FOR RELEASE UPON DELIVERY

STATEMENT OF THE HONORABLE CHARLS E. WALKER
THE UNDER SECRETARY OF THE TREASURY
BEFORE THE
SUBCOMMITTEE ON EDUCATION OF THE COMMITTEE
ON LABOR AND PUBLIC WELFARE, U. S. SENATE,
WEDNESDAY, August 12, 1970 10:00 A.M. (EST)

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 before the 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 7,000 educational institutions. Close to 20,000 lenders -- mainly banks -- have participated in this program. The cost to the government in interest benefits from November 8, 1965, through June 30, 1970, has been just under $155 million. The special allowance passed last year cost $4.8 million. The total cost of the guaranteed loan program since November 1965, through June 30, 1970, was $159.5 million.

Let me make a flat statement in which I strongly believe: Th 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, some $840 million in loans were made to some 920,000 students. That is $152 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 participati

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 seven more months. For those who go tq 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 markedly 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.

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 heavy demand for capital from all quarters. These developments have caused several states to design their own secondary markets, but these local markets cannot meet all of the need.

The varied nature of these student loans, together with the success of the program across the nation, makes the creation of the National Student Loan Association necessary.

Although the detailed operations of any secondary financial market are necessarily complicated, the concept is simple.

Briefly stated., S. 3636 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.

I want to stress this point. Warehousing will not solve the long-term liquidity problems created by a sizeable student loan portfolio. The lender must at some point repay the advance. The flexibility to adjust to changing market conditions would not be provided by warehousing alone.

A full secondary market would also add flexibility to various objectives of the loan program itself. 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. The Association could buy certain amounts of various types of loans in package deals.

In the purchasing operation, the Association would adjust the rates at which it buys student loans with fluctuations in the money markets.

How would this work? The Association 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 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.

When interest rates come down, the Association 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 now to help assure liquidity to financial institutions which hold $2¼ 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. The secondary market would also encourage new lenders to participate. The assurance that there is a ready market for student loans, whether used or not, would certainly increase the attractiveness of the program.

Office of Education estimates the dollar volume for student loans will approach 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 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 knowing 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.

# # # # # # # # # # # #

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 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.

****

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 Law 4/
		Married Couple with One Student Dependent		
$ 7,500	$1,750	$ 9,250	$1,005	$ 646
10,000	1,750	11,750	1,475	1,050
15,000	1,750	16,750	2,537	1,987
20,000	1,750	21,750	3,772	3,200
		Married Couple With Two Student Dependents		
$ 7,500	$3,500	$11,000	$1,004	$ 518
10,000	3,500	13,500	1,473	909
15,000	3,500	18,500	2,516	1,824
20,000	3,500	23,500	3,724	3,014

ce of the Secretary of the Treasury
fice of Tax Analysis

June 4, 1970

Parents contribute more than one-half of the support of the student(s).

Sum of parents and students income.

Law prior to tax year 1970; assumes the standard deduction or deductions 10 percent of income whichever is higher, in computing parents tax and students tax. The tax of the one student under old law is $124. The tax of the two students under old law is $248. The combined parents and students tax is shown. Includes 10 percent surcharge.

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.

Department of the TREASURY

HINGTON, D.C. 20220 TELEPHONE WO4-2041

NEWS

FOR IMMEDIATE RELEASE August 11, 1970

ARTEMUS E. WEATHERBEE NAMED TO U. S. DIRECTOR
OF THE ASIAN DEVELOPMENT BANK

Treasury supplied the following background material on Artemus E. Weatherbee who was nominated today by President Nixon for a two-year term as executive director of the Asian Development Bank, Manila:

Mr. Weatherbee, age 52, a legal resident of Bangor, Maine, has over 30 years of Federal service. He was appointed to his present post, the Department's top career general management position, in 1959 by Secretary Anderson with the approval of President Eisenhower. He has served as an Assistant Secretary longer than anyone in the history of the Treasury Department and under five Secretaries and four Under Secretaries.

Prior to his Treasury service, Mr. Weatherbee served in the Post Office as Deputy Assistant Postmaster General, in the State Department in several capacities including Deputy Director of Personnel and in several other Agencies. He entered Federal service in 1939 via an intership in public administration as one of 40 students selected in nation-wide competition by the National Institute of Public Affairs. He saw overseas service in World War II as a Naval Officer and is on the retired list as a Commander.

Mr. Weatherbee was an honor graduate of the University of Maine where he worked his way through, participating in a number of extra curricular activities and graduating as Class Valedictorian, a member of Phi Beta Kappa and Phi Kappa Phi, and a nominee of the University for a Rhodes Scholarship. He was a graduate of Bangor High School where he received the Kirstein Scholarship to the most deserving graduate (male).

(OVER)

Mr. Weatherbee has been active in the Washington United Givers Fund, serving several years as Vice President, and in the promotion of Savings Bonds sales as alternate to the Secretary of the Treasury on the Interdepartmental Savings Bonds Committee. He has served as President of the Maine State Society, President of the D.C. University of Maine Alumni Association, and Commanding Officer of his Naval Reserve Company. He is a member of the University of Maine Development Council and has been involved in a number of community, church, scouting, veterans and professional organizations.

Service awards have included the State Department's Meritorious Service Award and Treasury's Exceptional Service Award as well as the Arthur Flemming Award from the U.S. Junior Chamber of Commerce as one of the ten outstanding young men in Government in 1956, the Career Service Award from the National Civil Service League as one of ten outstanding career civil servants in the Federal Government in 1965 and the Rockefeller Public Service Award for Distinguished Service in 1968.

Mr. Weatherbee was married in 1940 to Pauline Jellison of Bangor, Maine and has three children, Sue (Mrs. William C. Polini) of Marlborough, Massachusetts, Richard Charles of Takoma Park, Maryland, and Steven Sherman of Silver Spring, Maryland, and two grandchildren, Michael and David (Polini). His stepfather and mother, Mr. and Mrs. Ray W. Sherman, are residents of Bangor as is his mother-in-law, Mrs. Charles A. Jellison. Mrs. Weatherbee is also an honor graduate of the University of Maine and a member of Phi Beta Kappa, also attended Bangor High School, and also received the Kirstein Scholarship to the most deserving graduate (female).

Mr. and Mrs. Weatherbee reside at 12613 Springloch Court, Silver Spring, Maryland, 20904, but will be moving to Manila in a few weeks. They may be reached there c/o American Embassy, APO San Francisco, California 96528.

oOo

Department of the TREASURY **NEWS**

HINGTON, D.C. 20220 TELEPHONE W04-2041

FOR IMMEDIATE RELEASE August 17, 1970

CHINESE CENSUS

The Treasury Department announced today that it is taking a census of Chinese property blocked under the Foreign Assets Control Regulations. A census of blocked Chinese property was last taken early in 1951, shortly after the Regulations were issued. The new census will provide the Treasury Department with current data concerning the amount, location and nature of the blocked assets.

Under the new census all blocked Chinese property must be reported to the Treasury Department not later than October 1, 1970 by persons in the United States who held any such property as of July 1, 1970. In addition, all persons who reported Chinese property on Form TFR-603 under the earlier census must file a current report with respect to that property whether or not it is still blocked, unless the property reported in 1951 was that of a person who was then in Taiwan.

Reports under the current census are to be filed on Form TFR-610, copies of which are being forwarded to all persons on the Foreign Assets Control mailing list and to all persons who filed reports in 1951 on Form TFR-603. Other persons who require the reports may obtain them from Unit 610, Foreign Assets Control, Department of the Treasury, Washington, D.C. 20220 or from the Foreign Assets Control Division of the Federal Reserve Bank of New York, 33 Liberty Street, New York, New York 10045.

Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE WO4-2041

TTENTION: FINANCIAL EDITOR

OR RELEASE 6:30 P.M.,

onday, August 17, 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 May 21, 1970 , and ne other series to be dated August 20, 1970 , which were offered on August 11, 1970 ere opened at the Federal Reserve Banks today. Tenders were invited for $1,800,000,000 r thereabouts, of 91 -day bills and for $1,300,000,000 or thereabouts, of 182-day ills. The details of the two series are as follows:

ANGE OF ACCEPTED OMPETITIVE BIDS:	91-day Treasury bills maturing November 19, 1970		:	182-day Treasury bills maturing February 18, 1971	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	98.365 a/	6.468%	:	96.678 b/	6.571%
Low	98.346	6.543%	:	96.662	6.603%
Average	98.350	6.527% 1/	:	96.670	6.587% 1/

a/ Excepting 1 tender of $240,000; b/ Excepting 1 tender of $1,000,000
54% of the amount of 91-day bills bid for at the low price was accepted
15% of the amount of 182-day bills bid for at the low price was accepted

OTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	:	Applied For	Accepted
Boston	$ 34,210,000	$ 23,950,000	:	$ 18,790,000	$ 8,690,000
New York	2,115,380,000	1,222,760,000	:	1,906,740,000	978,360,000
Philadelphia	51,170,000	26,150,000	:	14,660,000	13,840,000
Cleveland	43,870,000	43,550,000	:	41,970,000	37,590,000
Richmond	37,930,000	37,930,000	:	16,300,000	16,300,000
Atlanta	44,790,000	29,690,000	:	35,300,000	18,460,000
Chicago	287,510,000	241,930,000	:	184,590,000	85,540,000
St. Louis	40,250,000	30,200,000	:	39,990,000	29,690,000
Minneapolis	27,380,000	18,920,000	:	25,370,000	11,020,000
Kansas City	38,250,000	33,230,000	:	30,120,000	24,410,000
Dallas	28,900,000	15,900,000	:	26,600,000	16,600,000
San Francisco	193,540,000	76,080,000	:	177,060,000	59,570,000
TOTALS	$2,943,180,000	$1,800,290,000 c/		$2,517,490,000	$1,300,070,000 d/

Includes $ 378,380,000 noncompetitive tenders accepted at the average price of 98.350
Includes $222,460,000 noncompetitive tenders accepted at the average price of 96.670
These rates are on a bank discount basis. The equivalent coupon issue yields are 6.73% for the 91 -day bills, and 6.91% for the 182 -day bills.

Department of the TREASURY NEWS

NGTON, D.C. 20220 TELEPHONE W04-2041

OR IMMEDIATE RELEASE August 18, 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 3,200,000,000, or thereabouts, for cash and in exchange for reasury bills maturing August 27, 1970, in the amount of 3,102,755,000, as follows:

92-day bills (to maturity date) to be issued August 27, 1970, n the amount of $ 1,800,000,000, or thereabouts, representing n additional amount of bills dated May 28, 1970, and to ature November 27, 1970, originally issued in the amount of 1,300,780,000, the additional and original bills to be reely interchangeable.

182-day bills, for $ 1,400,000,000, or thereabouts, to be ated August 27, 1970, and to mature February 25, 1971.

The bills of both series will be issued on a discount basis nder competitive and noncompetive bidding as hereinafter provided, nd at maturity their face amount will be payable without interest. hey 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 p to the closing hour, one-thirty p. m., Eastern Daylight Saving ime, Monday, August 24, 1970. Tenders will not be eceived at the Treasury Department, Washington. Each tender must e for an even multiple of $10,000, and in the case of competitive enders the price offered must be expressed on the basis of 100, ith not more than three decimals, e. g., 99.925. Fractions may ot be used. It is urged that tenders be made on the printed orms and forwarded in the special envelopes which will be supplied y Federal Reserve Banks or Branches on application therefor.

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

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 27, 1970, in cash or other immediately available funds or in a like face amount of Treasury bills maturing August 27, 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

HINGTON, D.C. 20220 TELEPHONE W04-2041

NEWS

FOR RELEASE AT NOON
THURSDAY, AUGUST 20, 1970

REMARKS BY THE HONORABLE DAVID M. KENNEDY
SECRETARY OF THE TREASURY
BEFORE
THE COMBINED CIVIC CLUBS OF SALT LAKE CITY, UTAH,
AT NOON, THURSDAY, AUGUST 20, 1970

I don't need to tell my friends here today that it's always a pleasure to return to Salt Lake City. I am particularly grateful to be able to take advantage of this pleasant occasion to share some thoughts with you about the state of the economy and what this Administration is doing to facilitate the transition from inflation to stable growth, and from a wartime to a peacetime economy.

The essential task we faced when this Administration came into office 19 months ago was to find a way of cooling the economy without tipping it into recession. You are all well aware that in the three years prior to the last election, the Federal Government had spent some $38 billion more than it had collected in taxes. These large deficits, reflecting primarily the rapid build-up of the Vietnam war, set in motion inflationary forces that only now are we beginning to see subside.

Many of us who took on responsible positions in the Administration came to our tasks with a view that the Federal Government should interfere as little as possible in the economic processes of our nation. Nevertheless, we all recognize that the Government has a major responsibility with respect to the functioning of our economy -- a responsibility that was abdicated by those who permitted such sizeable deficits at a time when our resources, both human and industrial, were already fully employed.

Our first order of business then, on coming into office, was to take steps to restore a more orderly rate of growth. Specifically, we had the difficult and unrewarding task of holding Federal expenditures to a more sustainable level than had been the case in earlier years. Despite the difficulties, bordering at times on anguish, this task in fact has largely been accomplished. From expenditure increases averaging 12 percent from Fiscal Year 1965 to 1969, the growth in outlays was slowed to just over 6 percent last year and is projected to grow at an even slower pace this year.

The President's effort to keep the budget under control has meant that many programs which under other circumstances would merit expansion have had to be held in check. The President's continuing commitment to responsible expenditure policies was once again made clear in his courageous decision last week to veto popular bills in the field of education and housing that would have added more than $1 billion to the amounts that he had asked for.

This policy of expenditure restraint is beginning to pay off. No one would claim that a complex economy such as ours can be slowed after four years of excessive inflation without some costs. Those costs have shown up not only in our inability to take on projects that we would like to pursue, but more clearly in the form of higher unemployment than we as a nation should tolerate for any protracted period. But these costs could not have been avoided by refusing to face the problem of inflation -- they could only have been postponed, with greater costs in the future.

As I said, I think we are now in a position to begin to see the results of our perseverance in policies of restraint. Excessive demand pressures that were so evident last year have been clearly dissipated. Indeed, it becomes increasingly clear that the economy has already passed through the most difficult period of transition. This does not mean that all of our problems are over, of course; but it does mean that we can look forward to a gradually increasing rate of expansion in the months ahead.

I am not sure that there is sufficient appreciation of the fact that our economy has been subjected to two different kinds of strain over the past year and a half. Not only has it had to respond to the shift from overheated expansion to a slower pace of growth generally, but on top of this, it has had to absorb the pressures that have inevitably accompanied the substantial reduction in defense outlays that reflected the President's effort to shift priorities into human resource programs. As the President said in his speech on the economy in June, approximately 700,000 people have become job seekers as a result of reductions in our military forces and in employment in defense industries. Fortunately, no one believes any longer that the strength of an economy such as ours depends on the stimulation of war-related expenditures. There are too many other obvious needs -- in the rebuilding of our inner-cities and the safeguarding of our environment, to name just two -- to fear any lack of effective demand. But the fact remains that this particular period of transition has been made more difficult by the phasing out of our participation in Vietnam.

Although I am convinced that we have made substantial progress in restoring the basis for sustained growth in the future, I am the first to recognize that progress in slowing price advances has been less rapid than all of us would desire. I think we can take some comfort, however, from the careful analysis that has just been prepared by the Council of Economic Advisors in the form of its first Inflation Alert. While that "alert" carefully avoids pointing a finger at specific culprits as the cause of inflation, its analysis of the process of inflation indicates that reduced demand pressures, brought about by the kinds of basic policies we have been pursuing, do result in reduced price advances. I believe that in the next few months we will begin to see the tapering-off in inflation that all of us have been looking for.

At the same time that the President requested the Council of Economic Advisors to prepare periodic Inflation Alerts, he appointed a Commission on Productivity, composed of leaders from industry, labor, the public and the Government to focus on the processes of inflation with a view to devising policies that will stand us in better stead in the future to avoid the kind of inflationary excesses that we have suffered in recent years. Basic to any such policies must be a greater emphasis on productivity, as the name of this Commission implies. One of the reasons for my belief that price advances will taper off in the months ahead is the record of past business cycles that indicates that we can expect a rise in productivity as we move into a period of re-expansion such as I believe lies ahead.

Although I am optimistic about the course of the economy over the coming months, I want to point out that we cannot afford to relax prematurely our basic economic policies. This is not to say that we must avoid any deficit in the budget at all costs. In fact, as you know, the last official budget estimate for the current fiscal year foresaw some shortfall in revenues. And the evidence since that forecast was made in May indicates that the deficit will be larger than the $1.3 billion indicated at that time. Moreover, given the change in the economic climate that has taken place in recent months, I think it is entirely appropriate that the Federal Reserve has eased up on its monetary policy recently.

But we cannot permit the budget again to become so unbalanced as to rekindle the inflationary pressures that only recently have died down. This means that we must keep a tight rein on government expenditures this year. It also means that the tax proposals now before the Congress must be enacted. The President has requested accelerated payment of gift and estate taxes which would yield $1.5 billion of additional revenue, on a one-shot basis, in this fiscal year. He also has asked for a tax on lead in gasoline which would result in a further $1.6 billion and a renewal of telephone and automobile excise taxes.

My comments thus far have dealt with the state of the economy in general. But the Administration is also acutely aware of the need to focus attention on Government policies that are directed primarily to state and local economies. As a timely example, I want to applaud Congressman Burton on the report which was recently presented to the President by the Public Land Law Review Commission. You are indeed fortunate to have had

Congressman Burton represent you on this Commission. Its purpose was to examine with a view to reform the existing methods of administering the public lands of the United States and the laws which affect them. With almost 70 percent of the land within the State of Utah being owned by the Federal Government, the future of the Commission's proposals will undoubtedly have great impact on Utah's economic growth. Highly important questions were raised regarding Federal compensation to the states for the use and occupancy of public lands, the coordination of public land use within local economic planning frameworks and the proper use of public lands in order to achieve environmental objectives.

This is just one example, though an important one, of the kind of productive partnership that can be forged between governments at the national and the local level. This kind of "federalism" underlies many of the initiatives of this Administration, initiatives that can work to the benefit of all the people.

oOo

Department of the TREASURY NEWS

INGTON, D.C. 20220 TELEPHONE WO4-2041

ATTENTION: FINANCIAL EDITOR

FOR IMMEDIATE RELEASE August 18, 1970

RESULTS OF TREASURY OFFERINGS OF NOTES

The Treasury today announced that further tabulation of subscriptions to its combined exchange and cash offerings of notes this month disclosed that these offerings had raised a net of $2.3 billion cash. This is an increase of $0.4 billion over the amount which was originally announced on August 7. It is expected that these additional funds, coupled with a continuation of the $100 million increase in weekly offerings of regular Treasury bills, will enable the Treasury to meet its needs through the third quarter and provide a portion of the cash requirements anticipated later in the year.

The results of the exchange offering by the public are shown in the following tabulation (in millions of dollars):

ELIGIBLE FOR EXCHANGE		TO BE ISSUED			UNEXCHANGED	
Description	Total	7-3/4% Notes 2/15/74	7-3/4% Notes 8/15/77	Total	Total	% of Eligible
6-3/8% notes	$1,948	$1,142	$ 564	$ 1,706	$ 242	12.4
4% bonds	3,657	1,849	1,221	3,070	587	16.1
Totals	$5,605	$2,991	$1,785	$ 4,776	$ 829	14.8

In addition, Federal Reserve banks and Government accounts exchanged for $0.1 billion of the notes maturing February 15, 1974, and for $0.5 billion of the notes maturing August 15, 1977.

In the cash offering of 7-1/2% Treasury notes maturing February 15, 1972, subscriptions totaled $18.6 billion from the public of which $3.2 billion was accepted. In addition, $0.2 billion of the notes were allotted to Federal Reserve banks and Government accounts.

Department of the TREASURY NEWS

SHINGTON, D.C. 20220   TELEPHONE W04-2041

FOR IMMEDIATE RELEASE   August 19, 1970

TREASURY'S MONTHLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $ 1,700,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing August 31, 1970, in the amount of $ 1,701,192,000, as follows:

273-day bills (to maturity date) to be issued August 31, 1970, in the amount of $ 500,000,000, or thereabouts, representing an additional amount of bills dated May 31, 1970, and to mature May 31, 1971, originally issued in the amount of $1,200,170,000, the additional and original bills to be freely interchangeable.

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

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

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p. m., Eastern Daylight Saving time, Tuesday, August 25, 1970. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $10,000, and in the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e. g., 99.925. Fractions may not be used. (Notwithstanding the fact that the one-year bills will run for 365 days, the discount rate will be computed on a bank discount basis of 360 days, as is currently the practice on all issues of Treasury bills.) It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

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

submit tenders except for their own account. Tenders will be recei 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 August 31, 1970, in cash or other immediately available funds or in a like face amount of Treasury bills maturing August 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.

Department of the TREASURY

IINGTON, D.C. 20220 TELEPHONE W04-2041

NEWS

MEMORANDUM FOR CORRESPONDENTS: August 19, 1970

The attached, Administrative Bulletin No. 70-73, which is being distributed to all Treasury employees, describes the establishment of a Departmental Federal Women's Program Coordinating Committee to develop a program of action to assure equal opportunity for Treasury employees. For further information, contact Mr. David Sawyer, telephone WO 4-5035.

Attachment 1

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

ISTANT SECRETARY

Administrative Bulletin No. 70-73

August 6, 1970

TO BE DISCARDED AFTER July 31, 1971

To Heads of Bureaus and All Employees,

Department of the Treasury

SUBJECT: Federal Women's Program

To assure equity among all Treasury employees, the Director, Equal Employment Opportunity is happy to announce an important part of his program on this 26th day of August, which is the 50th anniversary of women's right to vote.

The Treasury Department recently established a Departmental Federal Women's Program Coordinating Committee with responsibilities to review needs of women employees and to develop a program of action to assure equal opportunity for Treasury employees. This Coordinating Committee is composed of:

Mrs. Esther C. Lawton, Chairman, Office of the Secretary
Mrs. Barbara Gainey, Bureau of Customs
Mrs. Erma Cordover, U. S. Savings Bonds Division
Mr. Philip N. Sansotta, Internal Revenue Service
Mrs. Sadie Mitchell, Bureau of Engraving and Printing
Mrs. Barbara R. Thompson, Internal Revenue Service
Mrs. Dolores Morgan, Bureau of Accounts

The Committee has developed an action program specifically geared to women in the Treasury Department. Among the proposals are:

1. Development of plans to assure dissemination of information about the Federal Women's Program to all levels.

2. Provision for opportunities for attendance of women at top-level meetings.

3. Bringing up to date the 1966 study on the status of women in the Treasury Department and determining the extent to which that study has been implemented.

(OVER)

4. Development of. a plan to obtain a current skills inventory, assurance of its implementation and a follow-up with a periodic inventory; identification of underutilized women and development of procedures to initiate remedial action.

5. Analysis of latest occupational inventory to determine possible intentional or unintentional patterns of discrimination.

6. Development of procedures to assure circularization of lists of vacant positions.

7. Assurance that materials affecting women are presented in an affirmative manner.

8. Provision for orientation at all levels of supervisory and managerial personnel, men or women, to break down traditional concepts on dealing with women employees, myths about employment of women, etc; and development of means to evaluate supervisory personnel, at least in part, on degree of their observance of equal employment policies.

9. Development of plans to counsel women on employment and other personnel matters.

10. Development of plans for training EEO counsellors on employment of women.

11. Provision for scrutiny of complaints and grievances based on sex discrimination.

Other plans will also be developed concurrently or subsequent to initiation of those listed.

A. E. Weatherbee
Assistant Secretary for Administration

Distribution: To be distributed to employees on or before August 26, 1970.

Department of the TREASURY NEWS
INGTON, D.C. 20220 TELEPHONE WO4-2041

ADVANCE FOR RELEASE FOR AMs
SUNDAY, AUGUST 23, 1970

TAX WITHHOLDING RULES BENEFITING RETIRED PERSONS ANNOUNCED BY TREASURY DEPARTMENT

The Treasury Department today announced regulations that will greatly simplify income tax payment methods next year for people who receive pensions or annuities.

The new regulations will enable retired persons and others who receive pensions and annuities to pay their Federal income taxes through a system of withholding starting in 1971. At present, tax withholding is not available to these persons. Instead, they have been required to file estimated income tax returns by April 15 of each year and make quarterly payments during the year to avoid penalties for failure to pay estimated tax.

Annuities which are wholly exempt from Federal taxation, such as social security pensions and Veterans Administration annuities, are excluded from the new rules.

The Treasury regulations interpret provisions of the Tax Reform Act of 1969 providing for withholding of income tax on pension and annuity payments beginning in 1971. They were published as a Treasury Decision in the Federal Register of Saturday, August 22.

Under the new rules, the person receiving a pension or annuity may ask the payer to withhold any specified whole dollar amount from each annuity payment, provided that the amount to be withheld is at least $5 a month and does not reduce the net amount of any payment to less than $10. The amount withheld need not equal the recipient's tax liability on the annuity.

The request for withholding must be made on a new Internal Revenue Service form, W-4P. This form will be available shortly at IRS district offices and will also be mailed by IRS to most

(OVER)

payers of pensions and annuities. Upon receipt of a correctly completed Form W-4P, the payer of an annuity must begin withholding the amounts requested in the first payment made after the expiration of three months from receipt of the request.

The regulations also provide that a request for withholding may be amended as to the amount to be withheld, or may be terminated altogether, by written direction of the annuitant.

Most individual taxpayers receive the greater part of their income through salary and wages which are subject to withholding of income tax when paid. They therefore need not file estimated tax returns, and need not make quarterly payments of estimated tax if their estimated tax liability, less tax to be withheld during the year, is less than $40.

Upon retirement, the taxpayer's wage and salary income normally ends, and he receives instead a retirement annuity. However, until adoption of the 1969 Tax Reform Act, there was no provision for withholding of tax from annuity payments. Thus the retired person has had to file an estimated income tax return, usually for the first time, and make quarterly payments of estimated tax to avoid penalties. By taking advantage of the new withholding procedure, the retired person will be able to avoid filing an estimated tax return, provided he requests withholding of an amount per month that will cover his tax liability for the year.

A retired person who has income from other sources that would require the filing of an estimated tax return and the quarterly payment of estimated tax can also use the new withholding procedure to advantage. Since the dollar amount of withholding from his monthly annuity payments is flexible, he can specify an amount that will also cover all or part of his estimated tax liability on his other income. If his estimated tax liability for the year is paid in this way, he will not have to file an estimated tax return.

The new Treasury regulations also specify that the present requirements for the withholding, paying, depositing and reporting of income tax at source, and the sanctions for failure to comply, will apply to annuity payments on which withholding has been requested.

oOo

Department of the TREASURY

HINGTON, D.C. 20220 TELEPHONE WO4-2041

NEWS

FOR IMMEDIATE RELEASE

August 24, 1970

ERNEST C. BETTS, JR. NAMED
ASSISTANT SECRETARY FOR ADMINISTRATION

Secretary of the Treasury David M. Kennedy today announced President Nixon's approval of the appointment of Mr. Ernest C. Betts, Jr. as Assistant Secretary for Administration. He will succeed Artemus E. Weatherbee who has held that post for 11 years and who has been nominated by the President, subject to Senate confirmation, as the U.S. Executive Director of the Asian Development Bank with headquarters in Manila, Philippines.

Mr. Betts, as the senior career official, will direct the administration and management affairs of the Department. He is 56 years old and has had 32 years of service in the Federal Government in a number of progressively responsible administrative positions in various agencies, principally Agriculture, State, and Treasury. He has served the past six years as Deputy Assistant Secretary for Administration in this Department and has been concurrently the Director of the Office of Budget and Finance. He is the only career official known to have served both as the Director of Personnel and the principal budget officer of different executive departments. He also served overseas as the Attache for Administration for the U. S. Embassy at Beirut.

Mr. Betts was born in Hillsboro, Wisconsin in 1914. He graduated from Sparta High School and attended Wisconsin State University, Platteville, and Vernon County Teachers College. He was a teacher and principal in rural and elementary schools in Wisconsin before entering the Government Service in 1939.

Mr. Betts has maintained an active interest in education and civic affairs. He is a former member of the Arlington County School Board and a former PTA President, and has been active in several professional management organizations, church affairs, and the Boy Scouts. He has received the Treasury Department's Meritorious and Exceptional Service Awards for his work as Director of the Office of Budget and Finance and Deputy Assistant Secretary.

Mr. and Mrs. Betts have three married sons and reside at 815 South 26th Street, Arlington, Virginia, and Epping Forest, Annapolis, Maryland.

o0o

K-474

Department of the TREASURY

D.C. 20220 TELEPHONE W04-2041

NEWS

FOR IMMEDIATE RELEASE

August 24, 1970

NEW $15,000 DENOMINATION OF TREASURY BILLS

The Treasury announced today that a new $15,000 denomination Treasury bill will be authorized for use effective September 1, 1970. The new denomination will bear the portrait of Lyman J. Gage who served as Secretary of the Treasury from March 6, 1897, to January 31, 1902.

The $15,000 denomination will be authorized for transactions in outstanding issues of Treasury bills bearing issue dates of March 5, 1970, or later, and for all new issues of Treasury bills to be issued September 3, 1970, and thereafter.

Tenders for Treasury bills will continue to be received in the minimum amount of $10,000, but effective with the auction on Monday, August 31, 1970, for the regular weekly bills to be issued September 3, tenders above the $10,000 minimum may be in multiples of $5,000.

Department of the TREASURY NEWS

INGTON, D.C. 20220 TELEPHONE W04-2041

FOR IMMEDIATE RELEASE August 25, 1970

U.S. TREASURY ANNOUNCES 1/2 PERCENT BONUS ON SAVINGS BONDS

Secretary of the Treasury David M. Kennedy, acting to implement a law signed last night by President Nixon, announced that a 1/2 percent bonus will be added to the interest rate paid to longer-term holders of United States Savings Bonds.

This bonus will raise the effective interest rate on new Bonds, when held to maturity, from 5 to 5-1/2 percent.

The increase, which is retroactive to June 1, 1970, will also result in improved yields on outstanding Series E and Series H Bonds.

The millions of Americans who own Savings Bonds -- including those 10 million persons who purchase them regularly through payroll savings plans -- will now have an extra incentive to hold on to them. For those who have not yet purchased Savings Bonds, the increase provides the added attraction of a bonus on their savings, savings that make an important contribution to the sound financing of our nation's government, Secretary Kennedy said.

The Secretary noted that the bonus provides a means of increasing the return to longer-term savers at a time of generally high interest rates. While the Treasury will retain flexibility to modify the bonus on future sales and extensions, Secretary Kennedy emphasized that all Bonds now held or newly purchased are assured of receiving the full 1/2 percent bonus through their next maturity.

The accompanying fact sheet explains the bonus in detail as it applied to both new and outstanding issues of Series E and Series H Bonds.

Attachment

K-473

FACT SHEET

UNITED STATES SAVINGS BONDS

IMPROVEMENTS IN YIELD RETROACTIVE TO JUNE 1, 1970

SERIES E

1. Series E Bonds purchased on or after June 1, 1970 when held to maturity will receive an extra 1/2 percent, payable at maturity, raising the yield to 5 1/2 percent from date of issue to date of maturity.

2. Outstanding E Bonds that have not reached their first maturity will receive a 1/2 percent increase in yield for semiannual interest periods beginning on or after June 1, 1970, payable as a bonus at maturity.

3. Outstanding E Bonds that have reached first maturity, or are extended beyond first maturity while the bonus is in effect, will have the 1/2 percent credited at the end of each semiannual interest period beginning on or after June 1, 1970, through their next maturity. The bonus is payable whenever the bonds are redeemed.

SERIES H

1. Series H Bonds purchased on or after June 1, 1970 will yield approximately 5.12 percent for the first 5 years and 6 percent for the remaining 5 years to maturity, providing an over-all yield of 5 1/2 percent from date of issue to date of maturity.

2. Outstanding H Bonds that have been held for less than 5 years will receive a 1/2 percent increase in yield for semiannual interest periods beginning on or after June 1, 1970, payable as a bonus in the form of increased semiannual interest payments during the second 5 years to maturity.

3. H Bonds that have been held 5 years, or are extended while the bonus is in effect, will receive a 1/2 percent increase in yield for semiannual interest periods beginning on or after June 1, 1970. The bonus will be added to semiannual interest checks through next maturity.

Department of the TREASURY NEWS

INGTON, D.C. 20220 TELEPHONE WO4-2041

TTENTION: FINANCIAL EDITOR

OR RELEASE 6:30 P.M.,

onday, August 24, 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 May 28, 1970 , and he other series to be dated August 27, 1970 , which were offered on August 18, 1970 ere opened at the Federal Reserve Banks today. Tenders were invited for $1,800,000,000 r thereabouts, of 92-day bills and for $1,400,000,000 or thereabouts, of 182-day ills. The details of the two series are as follows:

ANGE OF ACCEPTED OMPETITIVE BIDS:	92-day Treasury bills maturing November 27, 1970		:	182-day Treasury bills maturing February 25, 1971	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	98.445	6.085%	:	96.818	6.294%
Low	98.408	6.230%	:	96.787	6.355%
Average	98.416	6.198% 1/	:	96.796	6.338% 1/

32% of the amount of 92-day bills bid for at the low price was accepted
63% 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	$ 34,630,000	$ 34,350,000	:	$ 19,630,000	$ 6,670,000
New York	1,944,960,000	1,253,900,000	:	1,827,880,000	905,980,000
Philadelphia	41,910,000	26,910,000	:	20,330,000	9,460,000
Cleveland	45,520,000	45,020,000	:	24,980,000	24,930,000
Richmond	47,860,000	47,520,000	:	49,680,000	33,680,000
Atlanta	48,960,000	42,330,000	:	40,650,000	25,810,000
Chicago	211,330,000	147,570,000	:	330,710,000	264,390,000
St. Louis	45,780,000	32,180,000	:	31,220,000	15,940,000
Minneapolis	37,770,000	32,770,000	:	41,010,000	29,110,000
Kansas City	50,300,000	48,000,000	:	35,430,000	22,160,000
Dallas	30,640,000	17,960,000	:	24,390,000	10,890,000
San Francisco	129,170,000	71,790,000	:	140,490,000	51,550,000
TOTALS	$2,668,830,000	$1,800,300,000 a/		$2,586,400,000	$1,400,570,000 b/

Includes $368,850,000 noncompetitive tenders accepted at the average price of 98.416
Includes $190,900,000 noncompetitive tenders accepted at the average price of 96.796
These rates are on a bank discount basis. The equivalent coupon issue yields are 6.39% for the 92-day bills, and 6.64% for the 182-day bills.

Department of the TREASURY

NEWS

NGTON, D.C. 20220 TELEPHONE W04-2041

FOR IMMEDIATE RELEASE AUGUST 25, 1970

TREASURY ISSUES COUNTERVAILING DUTY PROCEEDING NOTICE ON TOMATO PRODUCTS FROM GREECE

The Treasury announced today that it has issued a countervailing duty proceeding notice covering tomato products from Greece.

The notice states that the Treasury has received information that subsidies are being paid on exports of Greek tomato products 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 U.S. countervailing duty law, and the imports in question would be subject to an additional (countervailing)duty equivalent to the amount of the subsidy.

The notice invites submission of comments in time to be received within 30 days from the date of publication in the Federal Register. It is scheduled to be published on Wednesday, August 26, 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 a countervailing duty order proclaiming the amounts. The countervailing duty would become effective 30 days after publication of the order in the Customs Bulletin.

Tomato products affected include peeled tomatoes, tomato paste, and tomato juice. Treasury information regarding the full amount of the subsidy being paid is incomplete at the moment. Subsidies cover rebates and refunds of certain bank charges, social security and income taxes.

Subsidies on tomato paste range from $38 to $84 per metric ton, depending on the concentration and packing. During calendar year 1969 Greece exported slightly under eight million pounds of tomato paste valued at approximately 1.3 million dollars.

Subsidies on peeled tomatoes appear to be about $30 per metric ton, and on tomato juice about $13 per metric ton. In calendar year 1969 there were about three million pounds of peeled tomato imports into the United States from Greece valued at approximately $260,000. The quantity of tomato juice imports was negligible.

oOo

Department of the TREASURY **NEWS**

HINGTON, D.C. 20220 TELEPHONE WO4-2041

FOR IMMEDIATE RELEASE August 25, 1970

TREASURY'S WEEKLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $3,200,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing September 3, 1970, in the amount of $3,102,590,000, as follows:

91-day bills (to maturity date) to be issued September 3, 1970, in the amount of $1,800,000,000, or thereabouts, representing an additional amount of bills dated June 4, 1970, and to mature December 3, 1970, originally issued in the amount of $1,306,400,000, the additional and original bills to be freely interchangeable.

182- day bills, for $1,400,000,000, or thereabouts, to be dated September 3, 1970, and to mature March 4, 1971, (CUSIP No. 912793 JX5).

The bills of both series will be issued on a discount basis under ompetitive and noncompetive bidding as hereinafter provided, and at aturity their face amount will be payable without interest. They will e issued in bearer form only, and in denominations of $10,000, 15,000, $50,000, $100,000, $500,000 and $1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up o the closing hour, one-thirty p.m., Eastern Daylight Saving time, onday, August 31, 1970. Tenders will not be received at the Treasury epartment, Washington. Each tender must be for a minimum of $10,000. enders over $10,000 must be in multiples of $5,000. In the case of ompetitive tenders the price offered must be expressed on the basis of 00, with not more than three decimals, e. g., 99.925. Fractions may ot be used. It is urged that tenders be made on the printed forms nd forwarded in the special envelopes which will be supplied by ederal 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 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 accompani 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 **September 3, 1970**, in cash or other immediately available funds or in a like face amount o Treasury bills maturing **September 3, 1970.** Cash and exchange tender will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

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 considered to accrue when the bills are sold, redeemed or otherwise disposed of, and the bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder must include in his income tax return, as ordinary gain or loss, the difference between the price paid for the 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.

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.

oOo

Department of the TREASURY

INGTON, D.C. 20220 TELEPHONE WO4-2041

NEWS

TTENTION: FINANCIAL EDITOR

OR RELEASE 6:30 P.M.,
uesday, August 25, 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 May 31, 1970 , and he other series to be dated August 31, 1970 , which were offered on August 19, 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 May 31, 1971		365-day Treasury bills maturing August 31, 1971	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv. Annual Rate
High	95.087	6.479%	93.564	6.348%
Low	95.040	6.541%	93.476	6.435%
Average	95.063	6.510% 1/	93.515	6.396% 1/

39% of the amount of 273-day bills bid for at the low price was accepted
72% of the amount of 365-day bills bid for at the low price was accepted

OTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	Applied For	Accepted
Boston	$ 10,790,000	$ 10,790,000	$ 12,010,000	$ 2,010,000
New York	949,980,000	374,880,000	1,533,030,000	927,230,000
Philadelphia	750,000	750,000	4,210,000	4,210,000
Cleveland	1,080,000	1,080,000	20,470,000	10,470,000
Richmond	8,660,000	5,050,000	18,010,000	12,730,000
Atlanta	14,970,000	6,020,000	32,180,000	21,870,000
Chicago	95,790,000	40,740,000	209,140,000	121,650,000
St. Louis	12,600,000	10,600,000	14,870,000	14,590,000
Minneapolis	15,700,000	13,180,000	9,800,000	8,800,000
Kansas City	11,590,000	7,980,000	12,840,000	12,540,000
Dallas	14,450,000	1,450,000	16,370,000	3,370,000
San Francisco	83,120,000	27,560,000	149,860,000	60,560,000
TOTALS	$1,219,480,000	$ 500,080,000 a/	$2,032,790,000	$1,200,030,000 b/

/ Includes $ 24,100,000 noncompetitive tenders accepted at the average price of 95.063
/ Includes $ 60,660,000 noncompetitive tenders accepted at the average price of 93.515
/ These rates are on a bank discount basis. The equivalent coupon issue yields are 6.87% for the 273-day bills, and 6.82% for the 365-day bills.

Department of the TREASURY

INGTON, D.C. 20220 TELEPHONE W04-2041

NEWS

MEMORANDUM FOR THE PRESS: August 27, 1970

As Acting Treasury Secretary, Paul A. Volcker has written Senator John C. Stennis, Chairman of the Subcommittee on Transportation of the Senate Appropriations Committee, to clarify his position regarding the continued development of the United States supersonic transport. The letter is attached.

oOo

Attachment

THE SECRETARY OF THE TREASURY
WASHINGTON

August 27, 1970

Dear Senator Stennis:

The report by Senator William Proxmire's Joint Economic Subcommittee on Economy in Government quotes a portion of a letter from me to the effect that "the potentially adverse impact on our travel account from development of a U.S. SST could equal or outweigh the positive impact on the aircraft sales account."

The report does not quote another portion of my letter which is as follows: "If one were fairly sure that a foreign SST would become a viable commercial proposition within the foreseeable future, then the balance-of-payments arguments against proceeding with a U.S. SST lose force. However, I have not kept in close touch with technical and commercial appraisals of the Concorde since my participation last year on the Ad Hoc Committee. I am, therefore, not in a position to provide you with an up-to-date assessment of the commercial prospects for this plane."

I submit that the total content of the letter should have been quoted to convey the correct impression of my view.

When members of the Department first commented on this issue better than a year ago, the prevailing opinion was that the overall balance-of-payments effect would probably be negative, in the absence of a viable foreign competitive aircraft. Now, I understand, the Concorde flight tests reportedly have been quite successful, and it appears likely that the British-French SST will be in commercial service by 1974.

On this basis, and consistent with my earlier statement, the balance-of-payments argument against the SST attributed to the Department of the Treasury in the JEC Report loses force.

Moreover, in view of calculations by the Department of Transportation on the extent of the Nation's trade balance affected by the SST over the next 20 years -- calculations based on assumptions which I find to be reasonable and proper at this time -- the potential balance-of-payments impact supports the advisability of going forward with the U.S. SST. As Secretary Kennedy indicated to the President, the program has our strong endorsement.

Sincerely,

Paul A Volcker

Paul A. Volcker
Acting Secretary

The Honorable John C. Stennis
Chairman
Subcommittee on Transportation
Senate Appropriations Committee
1235 New Senate Office Building
Washington, D. C.

Department of the TREASURY

HINGTON, D.C. 20220 TELEPHONE W04-2041

NEWS

FOR IMMEDIATE RELEASE

August 28, 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 $3,200,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing September 10, 1970, in the amount of $3,104,310,000, as follows:

91-day bills (to maturity date) to be issued September 10, 1970, in the amount of $1,800,000,000, or thereabouts, representing an dditional amount of bills dated June 11, 1970, and to mature)ecember 10, 1970, originally issued he amount of $1,302,860,000, the additional and original bills to be reelv interchangeable.

182- day bills, for $1,400,000,000, or thereabouts, to be dated eptember 10, 1970, and to mature March 11, 1971 :USIP No. 912793 JY3).

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

Tenders will be received at Federal Reserve Banks and Branches up the closing hour, one-thirty p.m., Eastern Daylight Saving me, Friday, September 4, 1970. Tenders will not be received the Treasury Department, Washington. Each tender must be for a nimum of $10,000. Tenders over $10,000 must be in multiples of ,000. In the case of competitive tenders the price offered must be pressed on the basis of 100, with not more than three decimals, ., 99.925. Fractions may not be used. It is urged that tenders be le on the printed forms and forwarded in the special envelopes which l be supplied by Federal Reserve Banks or Branches on application refor.

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 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 accompani 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 **September 10, 1970,** in cash or other immediately available funds or in a like face amount o Treasury bills maturing **September 10, 1970.** Cash and exchange tender will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

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 considered to accrue when the bills are sold, redeemed or otherwise disposed of, and the bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder must include in his income tax return, as ordinary gain or loss, the difference between the price paid for the 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.

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.

FACT SHEET

WITHHOLDING OF APPRAISEMENT ON TELEVISION RECEIVING SETS FROM JAPAN

The initial dumping "complaint" was filed on March 22, 1968, on behalf of the Imports Committee, Tube Division, Electronic Industries Association. An "antidumping proceeding notice" was issued on June 10, 1968. The withholding notice will be published in the Federal Register within approximately one week.

Products covered in the complaint and also in the withholding of appraisement notice are black and white, and color TV receiving sets from Japan.

During the year 1969, approximately one quarter of a billion dollars worth of sets were exported to the United States from Japan. The major Japanese manufacturers involved are:

1. Matsushita Electric Industrial Company, Ltd.
2. Tokyo Shibaura Electric Company, Ltd.
3. Hayakawa Electric Company, Ltd.
4. Hitachi, Ltd.
5. Sony Corporation.

Q's and A's

1. What is dumping?

In order to have dumping, there must be:

A. A determination of sales at less than fair value by the Treasury Department; and

B. A determination of injury to U.S. industry by the Tariff Commission.

A typical case of sales at less than fair value would take place in a situation where a foreign company sells merchandise in the United States at prices which are less than those in his home market. The home market price and that at which he sells in the United States, which are used for comparison purposes, are ex factory in both instances. This assures that price comparisons are made on an equal basis. If the foreign manufacturer sells in the U.S. market through a subsidiary, a wholly different set of standards for comparison purposes is prescribed under the law. This too is designed to ensure equity in the resulting price comparisons.

2. What are the procedures followed in dumping cases?

Normally a dumping case is initiated as a result of a "complaint" submitted to the Bureau of Customs by an American producer. The "complaint" is analyzed preliminarily by the Bureau to determine whether it contains adequate information to support initiation of a full-scale dumping investigation. If the decision is affirmative, an "Antidumping Proceeding Notice" is published in the Federal Register. This constitutes, in effect, an official announcement that an antidumping investigation has been initiated.

This is followed by an exhaustive investigation by the Bureau of Customs, both abroad and in the United States, which takes into account factors leading to the establishment of bases for comparing home market price with that at which the foreign manufacturer or exporter sells in the United States.

If questions arise, as frequently happens, these are taken up directly by the Bureau of Customs with the attorneys for the foreign manufacturer. The attorneys for the"complainant" also have an opportunity to confer with the Customs caseworker regarding the case. Ultimately a report is prepared by the Bureau of Customs recommending preliminary action to the Treasury Department. This may take the form of a withholding of appraisement, as in the Japanese TV case, or a tentative determination of no sales at less than fair value.

Within three months after such preliminary action, a final determination of sales at less than fair value, whether affirmative or negative, is issued by the Treasury Department. During this three-month period between preliminary and final action, any interested party may request a conference at the Treasury Department to discuss the issues involved. When such conferences are requested, all interested parties are invited to attend. Thus the Treasury Department is in a position to consider all viewpoints at that time.

If the Treasury's final determination is affirmative, the case is then referred to the Tariff Commission for an injury determination, which under the law must be made within three months. If it is negative, the case is closed with a determination of no sales at less than fair value.

If the Tariff Commission determines injury, the case is referred back to the Treasury Department for assessment of dumping duties, where applicable.

3. What does "withholding of appraisement" mean?

For purposes of the Antidumping Act, withholding of appraisement means that, if later there is a determination of sales at less than fair value by the Treasury Department and of injury by the Tariff Commission, dumping duties will be assessed on all sales of dumped merchandise as of the date the order of withholding is published in the Federal Register. It should be noted that withholding of appraisement does not stop the continued flow of the affected merchandise into the United States.

4. Who pays dumping duties in the event a finding of dumping is issued?

The importer.

Department of the TREASURY NEWS

INGTON, D.C. 20220 TELEPHONE W04-2041

FOR IMMEDIATE RELEASE August 8, 1970

WITHHOLDING OF APPRAISEMENT ON
TELEVISION RECEIVING SETS FROM JAPAN

Assistant Secretary of the Treasury Eugene T. Rossides announced today that the Bureau of Customs is instructing Customs field officers to withhold appraisement of television receiving sets, monochrome and color, 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, 1921, as amended (19 U.S.C. 160 et seq.).

Under the Antidumping Act the Secretary of the Treasury is required to withhold appraisement whenever he has reasonable cause to believe or suspect that sales at less than fair value may be taking place.

A final Treasury decision in this investigation will be made within three months. Appraisement will be withheld for a period not to exceed 6 months from the date of publication of the "Withholding of Appraisement Notice" in the Federal Register.

Under the Antidumping Act, a determination of sales in the United States at less than fair value requires that the case be referred to the Tariff Commission, which would consider whether American industry was being injured. Both dumping margins and injury must be shown to justify a finding of dumping under the law.

During the period January 1, 1967, through May 31, 1970, television receiving sets valued at approximately $638,828,000 were exported to the United States from Japan.

oOo

Department of the TREASURY NEWS

D.C. 20220 TELEPHONE W04-2041

NTION: FINANCIAL EDITOR

RELEASE 6:30 P.M.,
ay, August 31, 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 June 4, 1970 , and other series to be dated September 3, 1970 , which were offered on August 25, 1970, opened at the Federal Reserve Banks today. Tenders were invited for $1,800,000,000, hereabouts, of 91 -day bills and for $1,400,000,000, 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 December 3, 1970		182-day Treasury bills maturing March 4, 1971	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv. Annual Rate
High	98.408	6.298%	96.727	6.474%
Low	98.383	6.397%	96.686	6.555%
Average	98.397	6.342% 1/	96.710	6.508% 1/

83% of the amount of 91-day bills bid for at the low price was accepted
58% of the amount of 182-day bills bid for at the low price was accepted

L TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

strict	Applied For	Accepted	Applied For	Accepted
ston	$ 28,930,000	$ 28,900,000	$ 16,535,000	$ 16,535,000
w York	1,708,875,000	1,228,025,000	1,594,855,000	1,074,315,000
iladelphia	38,600,000	23,600,000	8,230,000	8,230,000
eveland	40,965,000	40,965,000	20,480,000	20,480,000
chmond	43,840,000	43,840,000	31,655,000	27,655,000
lanta	46,130,000	41,880,000	41,325,000	31,375,000
icago	198,465,000	167,615,000	128,420,000	70,380,000
. Louis	50,170,000	46,820,000	23,650,000	23,150,000
nneapolis	26,155,000	26,155,000	24,645,000	16,225,000
nsas City	33,035,000	32,035,000	23,970,000	22,970,000
llas	31,755,000	24,585,000	26,940,000	14,940,000
n Francisco	131,450,000	95,600,000	134,270,000	73,870,000
TOTALS	$2,378,370,000	$1,800,020,000 a/	$2,074,975,000	$1,400,125,000 b/

ncludes $346,380,000 noncompetitive tenders accepted at the average price of 98.397
ncludes $178,475,000 noncompetitive tenders accepted at the average price of 96.710
hese rates are on a bank discount basis. The equivalent coupon issue yields are
.53% for the 91 -day bills, and 6.82% for the 182-day bills.

Department of the TREASURY NEWS

IINGTON, D.C. 20220 TELEPHONE WO4-2041

[ENTION: FINANCIAL EDITOR

ł RELEASE 6:30 P.M.,

iday, September 4, 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 June 11, 1970 , and ɘ other series to be dated September 10, 1970, which were offered on August 28, 1970, re opened at the Federal Reserve Banks today. Tenders were invited for $1,800,000,000, thereabouts, of 91-day bills and for $1,400,000,000, 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 December 10, 1970		:	182-day Treasury bills maturing March 11, 1971	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	98.408	6.298%	:	96.693 a/	6.541%
Low	98.384	6.393%	:	96.677	6.573%
Average	98.391	6.365% 1/	:	96.686	6.555% 1/

a/ Excepting 1 tender of $600,000

70% 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

TAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	:	Applied For	Accepted
Boston	$ 29,965,000	$ 19,545,000	:	$ 18,545,000	$ 5,545,000
New York	1,957,975,000	1,127,975,000	:	2,299,285,000	1,130,785,000
Philadelphia	36,320,000	21,195,000	:	9,400,000	9,300,000
Cleveland	43,715,000	43,300,000	:	21,315,000	19,215,000
Richmond	43,565,000	32,465,000	:	22,530,000	12,430,000
Atlanta	42,600,000	27,665,000	:	37,190,000	13,900,000
Chicago	228,995,000	209,895,000	:	177,170,000	30,905,000
St. Louis	49,915,000	45,915,000	:	34,020,000	27,220,000
Minneapolis	31,235,000	25,675,000	:	25,510,000	9,310,000
Kansas City	42,135,000	40,755,000	:	27,685,000	18,185,000
Dallas	28,470,000	15,870,000	:	25,045,000	11,445,000
San Francisco	218,780,000	190,080,000	:	278,615,000	112,555,000
TOTALS	$2,753,670,000	$1,800,335,000	b/	$2,976,310,000	$1,400,795,000 c/

Includes $313,535,000 noncompetitive tenders accepted at the average price of 98.391
Includes $165,585,000 noncompetitive tenders accepted at the average price of 96.686
These rates are on a bank discount basis. The equivalent coupon issue yields are 6.56% for the 91 -day bills, and 6.87% for the 182 -day bills.

Department of the TREASURY

NGTON, D.C. 20220 TELEPHONE W04-2041

NEWS

FOR IMMEDIATE RELEASE September 8, 1970

DOUGLAS C. FRECHTLING APPOINTED DEPUTY ASSISTANT TO THE SECRETARY

Treasury Secretary David M. Kennedy today announced the appointment of Douglas C. Frechtling as Deputy Assistant to the Secretary and Director of the Executive Secretariat. He succeeds Rex Beach who was recently named Assistant to the Secretary.

Before joining the Treasury, Mr. Frechtling served first as a Research Assistant and then a Minority Economist for the Joint Economic Committee, United States Congress.

A native of Washington, D. C., Mr. Frechtling received his B.A. degree from Hamilton College, Clinton, New York in 1965. In January of this year he received a Master of Philosophy degree from George Washington University where he is presently working on his disertation for a Ph.D. in economics.

Mr. Frechtling is married to the former Joy A. Miller of Chicago, Illinois. They live in Bethesda, Maryland.

oOo

K-477

Department of the TREASURY NEWS

INGTON, D.C. 20220 TELEPHONE W04-2041

FOR IMMEDIATE RELEASE

SEP 8 1970

WITHHOLDING OF APPRAISEMENT ON ALUMINUM ELECTROLYTIC AND CERAMIC CAPACITORS FROM JAPAN

Assistant Secretary of the Treasury Eugene T. Rossides announced today that the Bureau of Customs is instructing Customs field officers to withhold appraisement of aluminum electrolytic and ceramic capacitors 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, 1921, as amended (19 U.S.C. 160 et seq.).

Under the Antidumping Act the Secretary of the Treasury is required to withhold appraisement whenever he has reasonable cause to believe or suspect that sales at less than fair value may be taking place.

A final Treasury decision in this investigation will be made within three months. Appraisement will be withheld for a period not to exceed 6 months from the date of publication of the "Withholding of Appraisement Notice" in the Federal Register.

Under the Antidumping Act, a determination of sales in the United States at less than fair value requires that the case be referred to the Tariff Commission, which would consider whether American industry was being injured. Both dumping margins and injury must be shown to justify a finding of dumping under the law.

During the period January 1, 1968, through May 1, 1970, aluminum electrolytic and ceramic capacitors valued at approximately $9,637,000 were exported to the United States from Japan.

oOo

Department of the TREASURY NEWS

IINGTON, D.C. 20220 TELEPHONE W04-2041

R IMMEDIATE RELEASE September 8, 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 ,200,000,000, or thereabouts, for cash and in exchange for Treasury lls maturing September 17, 1970, in the amount of$3,105,940,000, follows:

91-day bills (to maturity date) to be issued September 17, 1970, the amount of $1,800,000,000, or thereabouts, representing an ditional amount of bills dated June 18, 1970, and to mature cember 17, 1970 originally issued in e amount of $1,302,670,000, the additional and original bills to be eelv interchangeable.

182- day bills, for $1,400,000,000, or thereabouts, to be dated ptember 17, 1970, and to mature March 18, 1971 SIP No. 912793 JZO).

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

Tenders will be received at Federal Reserve Banks and Branches up the closing hour, one-thirty p.m., Eastern Daylight Saving ne, Monday, September 14, 1970. Tenders will not be received the Treasury Department, Washington. Each tender must be for a imum of $10,000. Tenders over $10,000 must be in multiples of ,000. In the case of competitive tenders the price offered must be ressed on the basis of 100, with not more than three decimals, ., 99.925. Fractions may not be used. It is urged that tenders be le on the printed forms and forwarded in the special envelopes which l be supplied by Federal Reserve Banks or Branches on application refor.

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 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 September 17, 1970, in cash or other immediately available funds or in a like face amount of Treasury bills maturing September 17, 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.

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 considered to accrue when the bills are sold, redeemed or otherwise disposed of, and the bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder must include in his income tax return, as ordinary gain or loss, the difference between the price paid for the 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.

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.

oOo

UNITED STATES SAVINGS BONDS ISSUED AND REDEEMED THROUGH August 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
URED				
ries A-1935 thru D-1941	5,003	4,997	6	.12
ries F and G-1941 thru 1952	29,521	29,489	31	.11
ries J and K-1952 thru 1957	3,754	3,738	15	.40
ATURED				
E[3]:				
1941	1,893	1,689	204	10.78
1942	8,354	7,459	895	10.71
1943	13,436	12,031	1,404	10.45
1944	15,683	13,955	1,728	11.02
1945	12,331	10,813	1,518	12.31
1946	5,603	4,744	859	15.33
1947	5,323	4,361	962	18.07
1948	5,510	4,432	1,078	19.56
1949	5,450	4,309	1,141	20.94
1950	4,769	3,716	1,053	22.08
1951	4,122	3,212	911	22.10
1952	4,320	3,343	978	22.64
1953	4,935	3,740	1,195	24.21
1954	5,031	3,749	1,282	25.48
1955	5,243	3,856	1,386	26.44
1956	5,066	3,688	1,379	27.22
1957	4,772	3,417	1,356	28.42
1958	4,659	3,224	1,435	30.80
1959	4,367	2,971	1,396	31.97
1960	4,381	2,865	1,516	34.60
1961	4,448	2,767	1,680	37.77
1962	4,301	2,579	1,722	40.04
1963	4,797	2,669	2,128	44.36
1964	4,675	2,631	2,044	43.72
1965	4,571	2,549	2,021	44.21
1966	4,923	2,607	2,317	47.06
1967	4,874	2,493	2,381	48.85
1968	4,624	2,227	2,398	51.86
1969	4,330	1,724	2,606	60.18
1970	1,810	289	1,522	84.09
Unclassified	712	898	- 186	-
Total Series E	169,314	125,006	44,308	26.17
ies H (1952 thru May, 1959)[3]	5,485	3,672	1,813	33.05
H (June, 1959 thru 1970)	7,504	2,250	5,254	70.02
Total Series H	12,988	5,922	7,066	54.40
Total Series E and H	182,303	130,928	51,375	28.18
Series { Total matured	38,277	38,225	52	.14
Series { Total unmatured	182,303	130,928	51,375	28.18
Series { Grand Total	220,580	169,153	51,427	23.31

les accrued discount.

nt redemption value.

tion of owner bonds may be held and will earn interest for additional periods after original maturity dates.

Department of the TREASURY
NEWS
INGTON, D.C. 20220 TELEPHONE WO4-2041

STATEMENT OF THE HONORABLE DAVID M. KENNEDY
SECRETARY OF THE TREASURY
BEFORE
THE COMMITTEE ON WAYS AND MEANS
WEDNESDAY, SEPTEMBER 9, 1970

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

The President has recommended three tax measures which deserve your immediate consideration --

A tax on lead additives used in the refining of gasoline;

an acceleration in the required time of payment of gift and estate taxes; and

a one year postponement of scheduled reductions in the automobile and communication services excise taxes.

The tax on lead additives in gasoline is an essential step at this time to deal with our increasing problem of pollution. The other measures are principally short term revenue raising measures, although the acceleration in payment of estate and gift taxes also permanently improves the operation of the estate and gift tax laws by giving the Government, subject to reasonable limitations, more current use of its tax revenues.

I will describe each of these measures separately.

TAX ON LEAD ADDITIVES

One of our greatest national concerns at the present time is the preservation and improvement of our environment. We must stop further deterioration in environmental conditions, particularly in the most vital element of all -- the air we breathe. We must insure that our air remains clean and fit for human use. This is an obligation we have to future generations as well as to ourselves.

One of the largest contributors to air pollution at the present time is the internal combustion engine in our automobiles. The Administration has established a priority program to reduce this air pollution. Our recommendation of a tax on lead used in gasoline additives is a vital element of that program.

The need for this tax is immediate. Gasoline refiners use lead additives to obtain higher octane ratings at the lowest cost. Because of these additives, lead compounds are discharged into the air in the exhaust fumes. The presence of these compounds in the environment is dangerous, both for the present as well as for the future. This tax will impose an economic penalty on the use of such additives which will permit unleaded gasoline to be produced and marketed at a price competitive with leaded gasoline of similar octane rating. This, in conjunction with other steps being taken, will reduce the use of these additives.

At the present time, lead compounds account for a major portion of the solids contained in exhaust fumes. Public health scientists are becoming increasingly concerned that the presence of these compounds in the air we breathe is damaging to human health. Furthermore, research is developing convincing evidence that the small particles serve as nuclei or surface catalysts for the formation of the smog which is choking so many of our major cities and which itself is a major health hazard.

Furthermore, lead is not the only major pollutant in automobile exhaust. Auto exhaust also contains after-products of the internal combustion itself -- hydrocarbons, carbon monoxide, and oxides of nitrogen. These, along with lead, are the source of smog.

The Federal Government has been working closely with the automobile industry to develop major solutions to the problem of air pollution. One element of the program is to adopt engine designs in new automobiles which will operate on lower octane gasoline. Since lead is added to increase octane, abatement of the octane race makes it feasible to begin now to reduce and eventually eliminate the lead in gasoline.

An equally important element in the program is a requirement that automobile manufacturers build into their new automobiles, beginning with 1975 models, devices to eliminate the noxious elements in the exhaust -- the hydrocarbons, carbon monoxide, and oxides of nitrogen. Thus, stringent standards for automotive emissions will go into effect at that time, and these can be satisfied only with emission control devices presently under development.

At the present time, there are no production-proven emission control devices that will meet these standards. An important device currently being developed by private industry to meet the standards, the catalytic reactor, could be destroyed by a single tankful of highly leaded fuel.

Accordingly, impending future needs require that at this time we create an effective incentive to industry to convert to the production of gasoline with little lead and in time no lead. Unleaded gasoline must be generally available in large quantity by mid-summer of 1974 if the emission control standards program is to succeed.

Imposition of the tax will provide necessary assurance to the automobile industry that the fuels their products will require will be available. Decisions are currently being made concerning the design of the 1975 model year automobiles. Confidence that unleaded fuel will be available will permit firm conclusions to be made as to incorporation of catalytic reactors or other such devices. In addition, during the intervening years, limited user testing of various engine and emission control designs will be a vital element in the eventual development of the best over-all system. This entire program of development to reduce air pollution from the internal combustion engine will be greatly facilitated if the auto industry knows with certainty that unleaded fuel will be generally available by the time their 1975 model automobiles are in production.

The gasoline refining industry requires at least two years' lead-time before decisions to make significant alterations or expansion of refining facilities can be put into effect. This expansion and alteration will be necessary to insure the availability of sufficient quantities of lead-free fuel. We recognize that some companies have recently made such fuels available on a limited basis. However, the quantities available are in fact quite limited in relation to our total gasoline requirements. This tax will provide reasonable economic pressure to assure that a complete conversion takes place on a reasonable basis over a period of time. It is important that this industry recognize the seriousness of this effort and the Government's complete dedication to achieving the goal. Enactment of this tax will adequately signal our intentions in this respect.

Adoption of the tax, coupled with suitable regulatory requirements as to fuel composition, as also proposed by the President, is the most appropriate way of achieving the objective of removal of lead from gasoline. Imposition of the tax will complement regulatory requirements as they come into existence by creating an immediate economic incentive to switch to low-leaded and unleaded gasoline. The amount of the tax is set so as to minimize any cost advantage as a result of the use of lead. By making it possible for refiners to effectively market unleaded and low-lead gasoline, the tax will create a competitive situation causing refiners to convert to such output. Competitive pressures in this regard already are in evidence, undoubtedly influenced by anticipation of the imposition of the tax.

The proposed tax rate is sufficient to induce refiners to increase their production of 91 octane unleaded fuel and 94 octane low-lead fuel within the limits of present octane production capability. This coincides with the automakers' announcement that their 1971 model cars will operate on such a fuel. The result of the tax will be to assure the availability of fuels which minimize lead use as quickly as conditions allow and to assure general availability of lead-free gasoline by mid-summer of 1974.

In addition to the benefits described above, enactment of the tax may well have a beneficial effect for the average motorist in reducing his maintenance costs. Large amounts of lead compounds can cause rapid deterioration of muffler and exhaust systems. Lead deposits also foul ignition systems and other internal engine parts. Elimination or reduction of lead may therefore lead to operating economies for every motorist. These economies will help overcome any increase in gasoline price resulting from the inability of refiners to use lead to achieve the desired octane levels.

In summary, adoption of the tax at this time is vital to our attempt to reduce some air pollution immediately. Furthermore, it will assure significant future improvement, thus reducing a health danger and minimizing smog conditions. It will cause gasoline refiners to begin conversion to low-lead and eventually non-leaded fuel so that there will be assurance of incorporation of effective pollution control devices in the 1975 automobile models. Finally, we believe that it will stimulate research and development of even more effective pollution control systems by providing assurance that non-leaded fuel will be generally available in the near future.

We recommend a tax of $4.25 per pound of lead in lead additives used in gasoline. The tax should be imposed on sales of the lead additives by manufacturers and importers. The tax should become effective as of October 1, 1970. A floor stock tax would be imposed on all inventories of lead additives held by persons other than manufacturers or importers on that date.

To prevent undue hardship on smaller refiners, we recommend that in the case of any corporate group, additives containing up to one million pounds be freed of the tax in its first full year of operation. This amount should be decreased at the rate of 200,000 pounds per year so that the tax will be fully in effect in 1976.

If the tax is made effective on October 1, 1970, as we recommend, it will result in a revenue increase of $1.1 billion in the fiscal year ending June 30, 1971.

ACCELERATION IN GIFT AND ESTATE TAX PAYMENTS

The President has recommended that the collection of estate and gift taxes be accelerated in order to provide approximately $1.5 billion in additional receipts for fiscal year 1971. We have submitted to Congress full details for implementing the President's proposal.

Our proposal would require the filing of the gift tax return and payment of the tax on a quarterly basis on the last day of the month following the end of the calendar quarter in which the gift was made. This will not be a burdensome requirement. 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 donors make all their gifts in a single calendar quarter of any year; thus, it is expected that few additional gift tax returns will be required under the quarterly system.

Our original proposal would also require the payment of an estimated estate tax seven months after death. This recommendation has generated considerable interest and controversy. Representatives of the Trust Division of the American Bankers Association and the Tax Section of the American Bar Association have proposed an alternative under which there would be no estimated tax requirement. Instead, the time for filing the estate tax return and paying the estate tax would be changed from fifteen months to nine months after death. An accompanying change would shift the alternate valuation date from one year to six months after death. The alternative proposal also calls for speed-up in the auditing of federal estate tax returns and the release of fiduciaries other than the executor from personal liability for the tax. The alternative proposal would also change the holding period rule so that any property included in the gross estate which is sold within six months after death would be given long term capital gain treatment.

This alternative proposal is designed to reduce the time necessary to complete administration of estates due to tax considerations. By requiring the filing of the estate tax return and payment of the estate tax six months earlier than under present law, the alternative proposal should normally shorten the period of estate administration by at least six months. This would represent a major improvement in our legal system.

This alternative proposal has received widespread endorsement from various bar associations, professional fiduciaries, and other taxpayers and their representatives. After study, we have concluded that this alternative is preferable to our original proposal for an estimated estate tax, and accordingly we now recommend the principal features of the proposal to you for adoption. We have some minor modifications in the specific proposals of these groups, and we are submitting for the record at this time a draft bill incorporating our recommendations for adoption of the alternative proposal.

An important feature of the proposal is a speed-up in the time of auditing federal estate tax returns. While this cannot be reflected in the draft legislation, we are prepared to make changes in the Internal Revenue Service's audit procedure in order to shorten the time now required to complete audits of estates. These steps will reduce further the time necessary for the administration of estates.

A major advantage of the alternative proposal is its simplicity when compared to the proposal for estimated estate tax returns. No additional return would be required; the time for filing the final return would merely be shortened.

In order that this proposal achieve its primary revenue-raising purpose, it is absolutely essential that it be made effective so as to require the filing of the estate tax returns of decedents dying prior to September 30, 1970, no later than June 15, 1971, or nine months after death, if later. Returns of decedents dying after September 30, 1970, will be required to be filed nine months after death. In the case of persons dying before September 30, 1970, there is no unfairness in shortening the fifteen months' period under existing law. None of these estates will be required to file returns less than nine months after the decedent's death. Notice of our intention to seek this type of legislation was first announced to the public in April, 1970.

This recommendation will result in a revenue increase of $1.5 billion in the fiscal year ending June 30, 1971.

EXCISE TAX EXTENSION

The existing budget situation and economic outlook require continuation of the present 7 percent excise tax on automobiles and 10 percent excise tax on telephone services through calendar year 1971. These taxes at present levels have played an important part in the anti-inflation program, and the scheduled reductions of these taxes would seriously weaken the program which has proven so successful in recent months. Thus, it is proposed that all scheduled reductions of these taxes be deferred for one year, and that their repeal be deferred until December 31, 1974.

The recommended extensions of present levels of excise taxes will prevent a revenue loss of $650 million in the fiscal year ending June 30, 1971, and $1,250 million in the fiscal year ending June 30, 1972.

* * * *

At this time, Chairman Russell E. Train of the Council on Environmental Quality, Under Secretary John G. Veneman of the Department of Health, Education and Welfare, and Dr. Hubert Heffner, Deputy Director of the Office of Science and Technology will present their statements with respect to the tax on lead used in gasoline additives. Following their statements, we will all be available to answer questions on the lead tax. Members of my staff and myself will answer questions on the estate and gift tax acceleration and the excise tax extension. Thank you.

oOo

Department of the TREASURY NEWS

INGTON, D.C. 20220 TELEPHONE W04-2041

ADVANCE FOR RELEASE AMs
TUESDAY, SEPTEMBER 15, 1970

September 9, 1970

TREASURY EXHIBIT FOLLOWS AMERICAN HISTORY

Almost 200 years of the American past are recalled in a new Exhibit Hall of the U.S. Treasury Department.

The sound and light display will be opened to the public Wednesday, September 16, in the Main Treasury building next door to the White House.

Treasury's strides through American history are traced at 20 audio-visual stations -- from the need to finance the American Revolution to the Twentieth-Century Treasury of computers, narcotics control and the GNP.

A number of questions are answered: How did the dollar sign originate? Why an income tax? A national currency?

Other exhibits tell of the "lick the stamps, lick the Kaiser" campaign for War Bonds in 1917, the narcotics crisis of the Gay Nineties, and the Treasury struggle against counterfeiting.

The exhibit, designed and built for $68,000, will be permanent. Estimates are that 100,000 to 200,000 Americans will view it annually.

Totally automated, the design makes the exhibit one of the few displays of its kind. At the end of audio-visual presentation at one station, light and sound are activated at the next one.

George Nelson and Company of New York, which designed exhibits at the New York World Fair, the U.S. National Exhibition in Moscow, and Colonial Williamsburg, were design contractors for the Hall.

Admission is free. Information pamphlets will be available at the exhibit.

The Exhibit Hall is entered at ground level from East Executive Avenue at midway in the Main Treasury building.

oOo

Department of the TREASURY NEWS

IINGTON, D.C. 20220 TELEPHONE WO4-2041

FOR RELEASE AT 12:00 NOON
THURSDAY, SEPTEMBER 10, 1970

REMARKS BY HENRY C. WALLICH,
SEYMOUR H. KNOX PROFESSOR OF ECONOMICS, YALE UNIVERSITY,
AND
SENIOR CONSULTANT TO SECRETARY OF THE TREASURY
DAVID M. KENNEDY
BEFORE
THE LUNCHEON OF THE MANAGEMENT CONFERENCE
ASSOCIATION OF STOCK EXCHANGE FIRMS
NEW YORK HILTON HOTEL, NEW YORK, NEW YORK
THURSDAY, SEPTEMBER 10, 1970

AN EARLY BIRD'S VIEW OF 1971

It is too late in the year to say much of interest about the remaining outlook for 1970. It is too early for a detailed look at 1971. But the time is always right to try to understand an experience and hopefully to profit from it.

The Hangover from Inflation

Quite possibly the third quarter of 1970, which is now drawing to a close, may record an increase in economic activity. In that case, since the second quarter also showed a small rise, some future historian may record that it was during the winter or spring of 1970 that the present contraction bottomed out. It is entirely possible that the downward movement came to an end long before we recognized the turn. In that event, the prophets of boom and doom will both have been refuted. The boom did not go on forever, but neither did it end in cataclysmic depression. If that should prove to be the shape of things past, the principal characteristic of the contraction will have been the contrast between its mildness in what economists call "real" and its virulence in financial terms. In terms of measures of output, income, employment and profits, it would have been the mildest of postwar contractions. Even in 1960-61,

K-480

these "real" factors fell more than they did so far in 1969-70. The financial impact, on the other hand, has been severe. This has been the first postwar contraction marked by bankruptcies of major corporations and other serious difficulties. The stock market drop has been the sharpest since 1938. Interest rates have reach 100 year highs, and the drop in the bond market has been correspondingly agonizing.

It is instructive to review the probable reasons for the severity of the contractions in the financial area in the face of so mild a movement in the rest of the economy. We have been plagued by a prolonged and accelerating inflation, unparalleled in some respects in peace time. The inflation has had time to grow deep roots in people's expectations. It is, in my judgment, a remarkable performance unequalled in our history, to have slowed the overheated economy, without passing through a serious recession to the point where definite signs of success in the struggle against inflation are surfacing. The task was even harder than expected, and the difficulties were observable in the long lags with which the economy responded to policy actions. This is one reason why strains in the financial sphere were bound to build up.

It is perhaps not altogether unjustified to say that business on its part contributed somewhat to the development of these strains. For a long time, a widespread belief held sway that the economy would not be slowed down, that the government lacked either the means or the will to do what had to be done. In consequence, business expectations in early 1970 remained high, plans for business investment continued to rise, and astounding interest rates were bid for money to carry through these plans.

Financial pressures gained in intensity also because, in the partnership of fiscal policy and monetary policy, the heavier burden fell upon monetary policy. The budget was kept under good control. The deficit for the fiscal year 1970 was small, and the short fall from the originally estimated $1.5 billion surplus was the result largely of a drop in revenues induced by the economic slowdown. Indirectly, however, the Federal government contributed to a loosening of restraints because of its numerous government assisted credit programs. Whether one chooses to regard these as quasi-government expenditures outside the budget, or as additional credit demands thrown by government upon the private financial markets, these programs place an extra burden on monetary policy. Monetary policy on its part was probably even more restraining than appeared, because a slow rate of growth of the money supply, during part of 1969 a zero growth rate, was maintained in the face of rapidly rising prices, which required the velocity of money to rise likewise. A given rate of growth of the money supply does not mean the same thing when prices are stable and when they are rising rapidly, as was the case in 1969 and 1970. Thus, what economists call the mix of fiscal and monetary policy was of a sort that added to the pressures upon financial markets. More fiscal and less monetary restraint would have eased those pressures.

The stockmarket particularly was affected by the combined impact of inflation and monetary restraint. Corporate profits, to be sure, dropped only moderately in absolute terms, although rather more in terms of their share in the national income. But the significant fact was that, after 1968, corporate profits did not respond favorably to inflation, as many had believed they would. As time went by, the inflation increasingly shifted from demand pull to cost push. Under such conditions, the stockmarket was no inflation hedge. On the contrary, confronted with very high interest rates in the bond market, stocks had to adjust. High interest rates had a particularly severe impact on growth stocks because high interest rates discount the distant future more heavily. Emphasis on growth therefore has made the stockmarket more vulnerable to increases in interest rates even when expectations of future growth remain unaffected by the slowdown.

One general lesson emerges from all this: inflation is far more unpleasant and painful than even the advocates of a vigorous policy of stable prices could have imagined. To those who advocated a more relaxed policy toward inflation, the experience must have come as a severe shock. Inflation was not a neutral process in which few are hurt, where incomes rise with prices, where savers make up on their equities and homes what they lose on their savings deposits and insurance policies, and where all sectors of the economy experience a mild stimulation from the illusion that everything is going up. Inflation has severely distorted the economy. It did its greatest damage to the housing industry, and might have wrought real havoc but for the vigorous action of the government in channeling money into that area when normal flows subsided. Inflation interfered with the execution of state and local investment projects as interest rates rose beyond what these governmental units could pay. Inflation added to social tensions, because by no means all incomes kept up with rising prices. It disturbed financial institutions and injured the international competiveness of American products. All in all, the experience should have gone some way toward reducing the Nielsen rating of the perpetual advocates of bigger government spending and bigger government deficits.

The economic foundations have now been laid for progressively reducing the rate of inflation. Excess demand has been eliminated. The economy has been slowed to the point of suffering a slight contraction. But even though it is quite possible that we are already moving up again, a substantial margin of excess capacity in the economy means that resumption of economic expansion need not interfere with the subsidence of inflation. We can have a rising economy and diminishing inflation provided we do not push for renewed expansion at a rate that would bring back overheating.

At the present time, we can observe some of the early signs of strength in various economic series. The Gross National Product was up slightly in the second quarter. The production index rose marginally in July. New orders for manufacturers durables were up for the first time. New housing starts have shown considerable strength. None of these movements as yet constitutes a trend. Reversals are possible especially in the presence of considerable uncertainty over the labor outlook. There is no evidence that the economy is poised for a new takeoff at a rapid rate. It is more likely to gather momentum slowly and to move forward increasingly in 1971. The task of economic policy will be to move the economy back toward full employment while giving the financial markets a chance to consolidate their position, reducing further the rate of inflation, and making sure that the approach to full employment does not reaccelerate the price trend. What are the prospects that this can be achieved in 1971?

Outlook by Sectors

Let me review first the areas of the economy that are not likely to show strength. One such is Federal government purchases of goods and services. The drop in Federal defense expenditures for several quarters has been one of the principal causes of the recent contraction. A further decline is to be expected. The leading indicators of defense spending point downwards. The reduction in the number of men and women in the Armed Forces will reduce military spending as well as add to the civilian labor force.

But while Federal purchases are coming down, the Federal government is adding to the forces of expansion in other ways. Tax cuts, government pay increases, and social security boosts have already added to purchasing power at a $15 billion annual rate. Their effects will be felt principally in the form of added consumer spending. Unfortunately, further effects will be felt also in the form of added Federal demands upon the capital markets, thereby reducing the funds available to other borrowers.

State and local expenditures which advanced at an unusually slow rate during the last year can be expected to recover their normal rhythm as interest rates come down while statutory ceilings go up, and as Federal grants-in-aid expand strongly. Demands for expanded public services are strong and it is hard to believe that in one way or another they will not be met.

Business spending for plant and equipment, as you know, has for years been in an extraordinarily strong uptrend. Even in the face of negative factors such as the removal of the investment tax credit, the increase in interest rates, the fall in the stock market, a general shortage of credit, and finally a rise in industrial excess capacity, this trend has continued, although at a slower rate. Recently, moreover, the increase has been exclusively due to higher prices. In constant dollars, plant and equipment spending has been falling for several quarters. Given present low operating rates, reduced profitability, and diminished cash flow, it seems unlikely that the plant and equipment boom will soon revive. A period of consolidation will probably have to pass before it can resume. Nevertheless, no serious slump, of the kind that occurred in 1957-1958, seems to threaten. Utilities, operating under capacity pressures of their own, have sharply stepped up their investment plans. The latest survey of manufacturers' appropriations for capital expenditures, moreover, shows virtually no continuation of the downward slide that had been in progress for two quarters.

Inventory accumulation has been a strong factor in the contraction, but not nearly so strong as it has been on past occasions. While in other contractions businessmen sharply reduced their inventories, pulling economic activity down with them, in 1969-70 they merely reduced the rate of accumulation. Inventory/sales ratios seem to be reasonably satisfactory and would probably call for substantial restocking if sales should expand once more at a good rate.

Residential construction was one of the prime victims of inflation. It is now showing some signs of strength. The demand for housing is obviously there. The money is beginning to be there too, although interest rates are still high. There is a question about the supply capacity of the housing industry, particularly after the painful upheaval that it has just gone through. A serious threat to high volume construction, moreover, comes from rapidly mounting costs. In any event, housing should make a substantial contribution to recovery.

The consumer has reacted negatively to inflation. This behavior runs counter to the popular belief that, as people see their money losing its value, they will rush out and buy. Businessmen may have purchased plant and equipment in that spirit. The consumer has been more conservative. He has apparently been concerned primarily with the risks of an inflationary climate, and has pushed his savings rate unusually high.

This has been one of the few compensations that financial markets have had in these trying times. One extra percentage point on the rate of saving out of disposable income means close to $7 billion a year. The increase in consumer saving over the last year has been many times larger than the decline in corporate saving. Consumer saving, moreover, for the most part flows through the financial markets, which is not the case of corporate saving. A rather subdued tone of consumer expenditures has in good part been made up, therefore, by the growing volume of funds available in financial markets.

It is not to be supposed that consumers will save at a rate of 7-½ percent of disposable income for very long. One contributory explanation of the high rate of saving could be that the consumer may not yet have fully adjusted to recent tax cuts and increases in social security benefits. Typically these adjustments occur with a lag of some quarters. An increase in consumer outlays in proportion to gains in income may therefore be ahead in 1971, if not in 1970.

A modest contribution to expansion, finally, can be expected from the growth of American exports relative to imports. The improvement in our trade balance also means that an important aspect of our international balance of payment is strengthening. The balance of payments, in our country, however, is less important in determining economic activity than in influencing the international position of the dollar. For the most part, the balance of payments continues to be dominated by international capital flows, in recent years increasingly of a short term character. These movements, and their possible influence on monetary policy and interest rates, are very difficult to predict although their importance is obvious.

Two Milestones in an Expansion

I would now like to take a broader look at the evolution of the economy that may be ahead. In the course of a business cycle one important milestone is the lower turning point. As I said at the beginning, it is quite possible that this turning point is already well behind us. In any event, because the slowdown has been very moderate and on charts will look more like a saucer rather than a V, the lower turning point may not be very well defined. This will be all the more true if, as I expect, the resumption of economic growth occurs rather gradually.

There is a second important milestone -- the point at which the rate of expansion of the economy overtakes the rate of growth of its potential, i.e. its capacity. Once that second milestone is passed, excess capacity and unemployment begin to diminish. In V shaped cyclical slowdowns and recoveries, the two milestones tend to be very close together. Unemployment and excess capacity may begin to diminish as soon as recovery sets in. In the present instance, a considerable distance may intervene between the first and second milestone. The rate of expansion is not likely to go immediately above the 4.3 percent rate of growth which the Council of Economic Advisers regards as the growth rate of the economy's potential. At some time during 1971, this milestone will have to be passed if the economy is to return toward full employment.

The movement toward the crossover point will test the skill of fiscal and monetary policymakers. Too slow a movement will needlessly waste resources and increase the unhappiness created by unemployment. Too fast a movement runs a risk of rekindling inflation. Past experience shows that the economy can expand at rates considerably in excess of potential without causing inflation. During the first half of the 1960's, for instance, the economy expanded at a rate in excess of 6 percent about half of the time, although not continuously. The performance, however, occurred under conditions of substantial unemployment. It has been argued that, as the economy returns to full employment, inflationary pressure results from the speed with which the capacity ceiling is approached as well as from the closeness to the ceiling itself. For instance, the inflation beginning in 1965 has been explained as being due at least in part to too rapid a rate of expansion as the economy was approaching its limits.

Since the gap between actual and potential in 1971, even at its maximum, should be very much smaller than it was during the early 1960's, the danger of approaching the capacity ceiling too rapidly will have to be kept in mind. This is all the more important because, in contrast to the early 1960's, the economy will not be operating at stable prices but at a still substantial albeit diminishing rate of inflation.

The inflation can confidently be expected to diminish precisely because of the existence of excess capacity, and because the evidence that inflation is being slowed will break present expectations of continued price increases and engender expectations of greater stability. To maintain this movement toward lower rates of price increase, however, will require a very careful control of the rate of expansion of the economy and avoidance of any semblance of overheating.

In this simultaneous movement toward both full employment and greater price stability, we must not let ourselves be sidetracked by the mirage of a tradeoff between unemployment and inflation. One of the victims of inflationary experience during the last two years precisely has been the faith that we can permanently enjoy a lower rate of unemployment if we are prepared to accept a slightly higher rate of inflation. That strategy may work so long as inflation goes unnoticed. But the rates of inflation reached recently, will not go unnoticed. A still higher rate of inflation will then be needed to achieve the same beneficial effect on unemployment, leading to still higher wage increases and still higher inflation, and so on. In the long run, alert employers and alert labor leaders are not likely to be fooled by inflation. Our best hope for reducing unemployment below levels now consistent with reasonable price stability is structural improvement in labor markets, manpower training, and restraint on the part of labor and business in wage and price policy.

Profits

If events should evolve somewhat along the lines suggested, what will be the outlook for corporate profits? Profits have fallen, relative to GNP and absolutely, but from a high point in both respects and by a margin that is modest compared to earlier drops. As the economy moves back toward full employment, I would expect profits to move back toward their traditional relation to the GNP of roughly 10 percent, although perhaps not to the levels well above 10 reached during the last expansion.

The cyclical restoration of profits is a complex and delicate movement, subject to many influences. During the early part of the 1960's, a number of special influences was at work that may have mislead analysts as to the subsequent outlook for corporate profits. It may be useful to examine the special factors operative at that time, and to compare with them other special factors whose influence may be felt hereafter. During the early 1960's, several circumstances made corporate profits after taxes advance more rapidly than would have been sustainable in the long run. First, the economy was recovering from a recession and was expanding at a rate faster than it could sustain once the capacity ceiling had been reached. Second, during that period profits increased relative to GNP, making up for the substantial drop they had experienced earlier. Third, post-tax profits benefitted from the investment tax credit and from the tax cut of 1964. Finally, all this happened initially in an environment of stable prices. When inflation first began in 1965, it took the form of demand-pull inflation. That means that profit margins were widened and profits increased further, until the inflation shifted into its cost-push phase and began to squeeze profit margins. In other words, most of the special factors operative during that period were of a kind to make the growth of profits higher, or look higher, than could be sustained in the long run.

During the early 70's, these factors will be rather different. While the GNP will recover relative to its potential and profits will recover relative to GNP, other elements may slow down the advance of profits. There will still be cost push pressures from past wage increases, from high interest rates, from maturing securities that have to be refunded There will be new costs resulting from efforts to combat pollution.

Capital Scarcity and the Securities Industry

In the course of the coming expansion, we shall become increasingly aware of a problem already on the horizon: the United States faces the prospect of a period of capital scarcity. It is true that the tremendous boom in plant and equipment spending may have taken care of many future needs for some time to come. But the demand for capital will be high to help rebuild our cities, to improve local services, improve mass transit, and protect the environment. This is a long and costly bill, and the capital markets will have to find the means. The job has not been made easier by the tax changes of 1969. While we have made gratifying progress toward greater tax equity, we have also favored consumption at the expense of saving.

How far these new capital needs are already expressed in the high level of long term interest rates, and how far those rates reflect the more temporary influences of inflation and monetary policy, I would hesitate to guess. I do see ahead a great need to stimulate saving. The role of the financial markets in meeting this need have already been underscored by the over $44 billion of bonds and over $8 billion of stocks that were raised in 1969. The recent survey of ownership by the New York Stock Exchange, showing 30 million stockholders, indicates how broad a base is already available to raise more capital. There is urgent need to build and rebuild the interest and the confidence of investors small as well as large. For the securitie industry, a tremendous challenge lies ahead.

o0o

Department of the TREASURY NEWS

INGTON, D.C. 20220 TELEPHONE W04-2041

FOR RELEASE ON DELIVERY

REMARKS FOR AMOS N. LATHAM, JR., DIRECTOR OF PERSONNEL,
BEFORE THE NATIONAL FEDERATION OF FEDERAL EMPLOYEES CONVENTION,
WOODLAKE INN, SACRAMENTO, CALIFORNIA, SEPTEMBER 15, 10:00 A.M. PDT

It is a great pleasure for me to attend another NFFE Convention. I always look forward to the opportunity of meeting my old friends at NFFE and to making new ones. I'm sure that this will be the case this year even though you may not agree with some of what I'm about to say. Indeed, I am looking forward to round table discussions with the Treasury family when we can explore further the matters that I will touch upon.

The purpose of this year's NFFE Convention is to draft a "Program of Progress." When I learned of this purpose the question which came to my mind was what do we mean by progress? "Progress" can mean many things, but Philosopher Alfred North Whitehead offered an unusual definition when he said "The art of progress is to preserve order amid change and to preserve change amid order." It is significant that Whitehead calls progress an art. In today's world it sometimes seems that it is an art practiced only by a dwindling number of artists.

But, I don't believe that the art of progress will be lost or forgotten. I think that in Federal Labor Relations, for example, both the Government and the Federal employee unions have to a large degree mastered the art of progress. Almost all of the change experienced in the Federal Labor Relations Program has been orderly change. There have been exceptions, notably the Post Office and F.A.A. strikes. But, for the most part, change has been orderly.

Since 1961 we have moved from no formal Governmentwide system of labor relations to E.O. 10988; from E.O. 10988 to E.O. 11491; from E.O. 11491 to Postal Reform and we are now moving toward new pay legislation which will allow union participation in the setting of wages for classified Government workers. Throughout this period the NFFE and its leadership through its "Truth Campaign" and other programs has ranked high among those to be commended for responsible efforts and leadership in supporting a history of orderly change in Federal Labor Management Relations.

I think that we have made and are now making progress. We have made progress even during the short time that E.O. 11491 has been in effect.

As you know, E.O. 11491 initially created many problems for unions and management. There were voids between the old order and the new and the transition from one to the other raised questions and caused confusion. Matters were not helped by the fact that the administrative bodies; the Federal Labor Relations Council; the Department of Labor; the Federal Service Impasses Panel and the Federal Mediation and Conciliation Service were slow in issuing regulations.

Staffing of the various administrative bodies took place slowly. This was probably necessary to line up the excellent people that have been hired. But, it caused a large backlog of cases and questions to be decided. Worst of all, it created a vacuum in which agencies and unions were forced to struggle unaided. During this period of vacuum we saw the Postal and F.A.A. strikes occur. One of these strikes, that of the air traffic controllers, perhaps could have been prevented if the new Executive Order had been fully operational. Basically, that was a strike for union recognition and not a strike for wages as was the Postal strike.

Today I think the situation under E.O. 11491 has progressed to where we are in an initial period of stabilization. The membership of the Federal Labor Relations Council itself is firm and the Council has increased its professional staff. The Impasses Panel is now fully staffed. The Department of Labor is now organized to handle its increased workload. Several hundred elections have been supervised and a number of unfair labor practice and representation cases have already been decided by Labor.

Federal union membership and representation apparently is approaching a plateau. The dramatic increases of the past are no longer occurring. 1969 showed only a 6% gain in the number of non-Postal employees covered in exclusive units. Prior years showed 27%, 45% and 36% gains, respectively.

Postal Reform has apparently resolved the most pressing problems of the Postal employee. And the F.A.A. situation has been channeled into the system of E.O. 11491.

So the machinery of the new Order is now oiled and running. Now is the time to let it operate and to identify and correct its flaws. The Order itself has a built-in provision for continuous review and improvement. In fact, the Federal Labor Relations Council has scheduled for this October the first of periodic hearings to review the efficacy of the Order. Such hearings provide an excellent means for updating the Order and correcting its weaknesses. The Executive Order in this respect has a very great advantage over legislation. Changes can be made much faster administratively by the President than they can by attempting to have Congress amend legislation.

I do not oppose legislation per se. However, I feel that we now have a progressive and workable Executive Order. In addition, we will probably soon have pay legislation providing for union participation in setting

Federal pay lines for classified employees. Since the beginning of the year we have seen new and revolutionary state legislation on public employee relations. This state legislation provides us in the Federal Government with a unique opportunity to observe the experience under the various systems set up by the states. We should be able to learn from their mistakes and to incorporate their successes into the current Executive Order or perhaps into future Federal law. It is true that the Federal Government has an obligation to lead the country in the field of public-employee management relations. Yet to do this the Government itself must be sure that it has an effective, stable and successful system. We should remember that the most successful man is the man who holds onto the old as long as it is good and grabs the new just as soon as he is sure that it is better.

Again, I want you to know that I am delighted to be here. The Department of the Treasury and NFFE have always enjoyed an excellent relationship. Thank you and I am sure that this will be another great NFFE Convention.

Department of the TREASURY NEWS

NGTON, D.C. 20220 TELEPHONE W04-2041

:NTION: FINANCIAL EDITOR

RELEASE 6:30 P.M.,

iay, September 14, 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 June 18, 1970 , and other series to be dated September 17, 1970 , which were offered on September 8, 1970, : opened at the Federal Reserve Banks today. Tenders were invited for $1,800,000,000, thereabouts, of 91-day bills and for $1,400,000,000, or thereabouts, of 182-day ls. The details of the two series are as follows:

IE OF ACCEPTED PETITIVE BIDS:	91 -day Treasury bills maturing December 17, 1970		:	182-day Treasury bills maturing March 18, 1971	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	98.416	6.266%	:	96.744	6.440%
Low	98.396	6.345%	:	96.708	6.512%
Average	98.404	6.314% 1/	:	96.717	6.494% 1/

60% of the amount of 91-day bills bid for at the low price was accepted
70% of the amount of 182-day bills bid for at the low price was accepted

AL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

istrict	Applied For	Accepted	:	Applied For	Accepted
oston	$ 39,675,000	$ 29,675,000	:	$ 26,285,000	$ 11,035,000
ew York	1,964,965,000	1,165,165,000	:	1,912,895,000	1,038,395,000
iiladelphia	41,710,000	26,710,000	:	9,495,000	9,405,000
leveland	55,945,000	51,195,000	:	29,490,000	29,190,000
ichmond	29,340,000	29,340,000	:	44,740,000	31,710,000
tlanta	55,155,000	45,685,000	:	35,845,000	26,390,000
iicago	211,555,000	197,555,000	:	218,390,000	134,290,000
t. Louis	47,770,000	44,170,000	:	35,410,000	26,310,000
inneapolis	38,610,000	38,610,000	:	25,930,000	17,030,000
ansas City	39,780,000	38,560,000	:	27,465,000	25,635,000
allas	33,585,000	24,785,000	:	32,485,000	17,585,000
an Francisco	154,830,000	108,575,000	:	208,185,000	33,070,000
TOTALS	$2,712,920,000	$1,800,025,000 a/		$2,606,615,000	$1,400,045,000 b/

Includes $381,965,000 noncompetitive tenders accepted at the average price of 98.404
Includes $203,035,000 noncompetitive tenders accepted at the average price of 96.717
These rates are on a bank discount basis. The equivalent coupon issue yields are '.51 % for the 91-day bills, and 6.81% for the 182 -day bills.

Department of the TREASURY

NGTON, D.C. 20220 TELEPHONE W04-2041

NEWS

STATEMENT OF THE HONORABLE JOHN S. NOLAN
DEPUTY ASSISTANT SECRETARY
BEFORE THE
HOUSE INTERIOR AND INSULAR AFFAIRS COMMITTEE
ON H.R. 15007 AND THE GENERAL TAX RELATIONSHIPS
BETWEEN GUAM AND THE UNITED STATES
9:45 A.M. (EDT), SEPTEMBER 15, 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, H.R. 15007, 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 H.R. 15007, 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. These changes are in substance the same as those which Treasury proposed during hearings before the Senate Interior Committee last June in connection with S. 3155, a bill identical to H.R. 15007.

I will explain briefly why we have taken this comprehensive approach and will 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 have also prepared implementing legislative language which we have submitted with this statement. Since the language would also require amendments to the U. S. Internal Revenue Code, we have also submitted copies of this statement and the draft bill to the House Ways and Means Committee and the Senate Finance Committee.

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.

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 jurisdiction; 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 H.R. 15007, touching as it does one aspect of Guam's tax status vis-a-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 jurisdiction.

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 nonresident 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. 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 treat subsequent distributions from the corporation as if they had been made from a domestic Subchapter S corporation. Losses of such electing Guam corporations, however, ought not to be used to offset U. S. source income.

The current arrangements for servicemen and civilian employees of the United States Government stationed in Guam would continue and would be given more specific statutory sanction. 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. 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 because 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 latter 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-a-vis the United States is not different from the status of United States corporations vis-a-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. H.R. 15007, 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 H.R. 15007 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, but 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.

Treasury is continuing to examine collection difficulties experienced by Guam with respect to the Guam tax liabilities of individuals not permanently resident in Guam and corporations which also operate elsewhere in the United States. At this time, however, we propose no broadening of the law in this area.

Today we have submitted to the Committee a draft bill which implements our proposals and a General Explanation which provides further background. Several points need to be made regarding the draft bill.

First, notwithstanding the symmetry between Guam and the United States which is implied by the mirror concept, Section 2 of our draft bill includes specific amendments to the Organic Act of Guam to provide in Guam the converse of the changes in the Internal Revenue Code regarding Guam source income and the status of Guamanians for United States tax purposes which are contained in Section 1 of our bill. We have taken this approach out of an abundance of caution and to ensure against misinterpretation of the intended results. It is our view that our purpose could also be achieved simply by amending the Internal Revenue Code to provide in the United States the results desired with respect to Guamanians and Guam source income, and to allow the mirror concept as set forth in the existing Organic Act provisions to produce the converse in Guam with respect to mainland residents and United States source income. However, disagreement among courts and administrative officials as to the full implications of the mirror concept have persuaded us to spell out in the draft bill the mirror results we are seeking to achieve.

Second, we have included in our draft bill a provision authorizing regulations to be issued jointly by Treasury and the Government of Guam to implement these proposals. Our intention here is to provide an administrative framework in which the two Governments may mutually resolve questions of interpretation and construction of these provisions. Undoubtedly questions of application of the principles involved in these proposals will arise in situations which we cannot anticipate and which have not been brought to our attention. As such questions arise, they may be resolved by mutual regulations agreed to by Treasury and Guam officials. The authority of the Government of Guam to issue rulings and regulations regarding the wholly internal application of the Guam territorial income tax remains unchanged.

Third, the draft bill includes a provision specifically authorizing agreements between the Internal Revenue Service and the Government of Guam regarding attribution to Guam or the United States of income of taxpayer with operations in both jurisdictions, allocation of income among different but related taxpayers operating in the two jurisdictions, and any other matter where agreement is necessary to avoid incompatibility between the tax administrations of the two jurisdictions. Such agreements have been made in the past to the mutual satisfaction of the two taxing authorities but this provision would remove any doubt regarding the legal basis for such agreements.

To summarize, 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.

APPENDIX

A BILL

To amend the Internal Revenue Code of 1954 and the Organic Act of Guam to modify the income tax relationship between the United States and Guam.

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

SECTION 1. AMENDMENTS TO INTERNAL REVENUE CODE OF 1954.

(a) Section 33 of the Internal Revenue Code of 1954 (relating to taxes of foreign countries and possessions of the United States) is amended--

(1) by striking out "The amount of taxes" and inserting in lieu thereof "(a) Foreign Tax Credit.--The amount of taxes", and

(2) by adding thereto the following new subsection:

"(b) Guam Tax Paid on Account of Income Taxes.-- Any amount of Guam Territorial income tax withheld under chapter 24 of the income tax laws in force in Guam pursuant to section 31 of the Organic Act of Guam (72 Stat. 681; 48 U.S.C. 1421i) on the wages of, or paid to Guam as estimated tax under section 6153 of such laws with respect to the income of, an individual who is a citizen or resident of the United States, and who is not a permanent resident of Guam, on the last day of the taxable year shall be allowed as a credit against the income tax imposed on such citizen or resident by this subtitle and shall be considered as a payment on account of such tax for the taxable year. The amount so withheld during any calendar year shall be allowed as a credit in the manner provided in section 31 (a) (2)."

(b) Section 881 of the Internal Revenue Code of 1954 (relating to tax on income of foreign corporations not connected with United States business) is amended by redesignating subsection (b) as subsection (c) and adding after subsection (a) the following new subsection:

"(b) Exception for Guam Corporations.--For purposes of this section, the term 'foreign corporation' does not include a corporation created or organized in Guam or under the law of Guam."

(c) Section 932 of the Internal Revenue Code of 1954 (relating to citizens of possessions of the United States) is amended by striking out the period at the end of subsection (a) and inserting in lieu thereof "or of Guam."

(d) Section 1375 of the Internal Revenue Code of 1954 (relating to distributions of electing small business corporations) is amended by adding at the end thereof the following new subsection:

"(g) For purposes of this section and section 1376, distributions from a corporation organized under the laws of Guam (and which has elected not to be taxed under the Guam territorial income tax) to a shareholder who has paid income tax to Guam with respect to his share of such corporation's undistributed taxable income shall be treated as having been made by a domestic corporation which has elected not to be taxed under this Subchapter."

(e) Section 1442 of the Internal Revenue Code of 1954 (relating to the withholding of tax on foreign corporations) is amended by adding at the end thereof the following new subsection:

"(c) Exception for Guam Corporations.--For purposes of this section, the term 'foreign corporation' does not include a corporation created or organized in Guam or under the law of Guam."

(f) Section 6401 of the Internal Revenue Code of 1954 (relating to amounts treated as overpayments) is amended by striking out "withheld on wages)," and inserting in lieu thereof "withheld on wages), 33 (b) (relating to Guam tax paid on account of income taxes),".

SEC. 2. AMENDMENTS TO ORGANIC ACT OF GUAM.

(a) Section 30 of the Organic Act of Guam (64 Stat. 384, 392; 74 Stat. 941; 48 U.S.C. 1421h) is amended--

(1) by striking out "All customs duties" and inserting in lieu thereof "(a) All customs duties", and

(2) by adding thereto the following new subsection:

"(b) Notwithstanding subsection (a) of this section, Federal income taxes derived from Guam in the case of an individual who is a citizen or resident of the United States, and who is not a permanent resident of Guam, on the last day of the taxable year and in the case of a corporation created or organized in the United States or under the law of the United States shall not be covered into the treasury of Guam. This subsection shall not apply in the case of any member of the Armed Forces of the United States or any civilian employee of any department or agency of the United States."

(b) Section 31 of the Organic Act of Guam (72 Stat. 681; 48 U.S.C. 1421i) is amended--

(1) by striking out "The income-tax laws" in the first sentence of subsection (d) (1) and inserting in lieu thereof "Except as otherwise provided in paragraph (2) of this subsection, the income-tax laws", and

(2) by striking out paragraph (2) of subsection (d) and inserting in lieu thereof the following paragraphs:

"(2) The income-tax laws in force in Guam pursuant to subsection (a) of this section shall also be deemed to include the following provisions:

"(A) For purposes of the Guam Territorial income-tax, a citizen of the United States who was not born or naturalized in Guam shall not be treated as a nonresident alien individual.

"(B) All individuals whose permanent residence is in Guam on the last day of the taxable year shall satisfy their income tax obligations under the Internal Revenue Code of 1954 and under the income-tax laws in force in Guam pursuant to subsection (a) of this section by paying their tax on income derived from all sources both within and without Guam into the treasury of Guam. Any amount of United States income tax withheld under chapter 24 of the Internal Revenue Code of 1954 on the wages of, or paid to the United States as estimated tax under section 6153 of such Code with respect to the income of, such an individual shall be allowed as a credit against the tax of such individual, as determined under this subparagraph, and shall be considered as a payment on account of such tax for the taxable year. The amount so withheld during any calendar year shall be allowed as a credit in the manner provided in section 31 (a) (2). This subparagraph shall also apply to a citizen of the United States who was born or naturalized in Guam and who is a resident of a foreign country on the last day of the taxable year, if such citizen's last place of permanent residence before he established residence outside the United States (as defined in section 7701 (a) (9) of the Internal Revenue Code of 1954) was in Guam.

"(C) No Guam Territorial income tax is required to be paid for any taxable year by an individual who is a citizen or resident of the United States, and who is not a permanent resident of Guam, on the last day of the taxable year, except amounts of such tax

(i) required to be withheld on wages under chapter 24 of the income-tax laws in force in Guam pursuant to subsection (a) of this section, (ii) paid to Guam as estimated tax for such year under section 6153 of such laws with respect to income derived from sources in Guam from the operation of a trade or business in Guam, or (iii) due by reason of the application of the provisions of subchapter S of such laws to an electing small business corporation of which such individual is a shareholder and which was created or organized in Guam or under the law of Guam. In the case of tax so withheld on wages this subparagraph shall apply to the tax which is allowed as a credit for such year under section 31 (a) (2) of such laws.

"(D) For purposes of the Guam Territorial income tax the term 'foreign corporation', as used in sections 881 and 1442 of the income-tax laws in force in Guam pursuant to subsection (a) of this section, does not include a corporation created or organized in the United

States or under the law of the United States or of any. State of the United States.

"(3) The Governor or his delegate shall have the same administrative and enforcement powers and remedies with regard to the Guam Territorial income tax as the Secretary of the Treasury, and other United States officials of the executive branch, have with respect to the United States income tax. The Governor shall prescribe all needful rules and regulations for the enforcement of the Guam Territorial income tax, except that he shall prescribe, jointly with the Secretary of the Treasury, such rules and regulations as they mutually deem necessary for the implementation and enforcement of paragraph (2) of this subsection. The Governor or his delegate shall have authority to issue, from time to time, in whole or in part, the text of the income-tax laws in force in Guam pursuant to subsection (a) of this section."

"(4) The Governor or his delegate and the Secretary of the Treasury or his delegate shall endeavor to resolve by mutual agreement any inconsistencies with respect to--

(A) the attribution of income, deductions, credits or allowances to a trade or a business in Guam or the United States of a person liable to tax in the other jurisdiction,

(B) the allocation of income, deductions, credits, or allowances between a taxpayer subject to the Guam Territorial income tax and a related taxpayer subject to tax under the Internal Revenue Code, and

(C) any other matter necessary to avoid incompatibility in the operation of the Internal Revenue Code and the Guam Territorial income tax."

SEC. 3. EFFECTIVE DATE.

The amendments made by this Act shall apply only with respect to taxable years beginning after December 31, 1969.

September 15, 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 which elects Subchapter S treatment. In that event each shareholder will file a return with Guam reporting and paying tax on his share of the corporation's income and will treat subsequent distributions from the Guam corporation as if they had been made by a domestic electing corporation.

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.

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.

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 nonresidents 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.

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.

Department of the TREASURY

HINGTON, D.C. 20220 TELEPHONE WO4-2041

NEWS

FOR RELEASE ON WEDNESDAY, SEPTEMBER 16, 1970, 12:00 NOON, EDT

Highlights of Weidenbaum Speech to Missouri Municipal League September 16, 1970

Treasury Assistant Secretary Murray L. Weidenbaum emphasized the continued importance of the proposed program of sharing Federal revenues with state and local governments. "Let me assure you that revenue sharing is a high priority item in the domestic program of the Nixon Administration."

Weidenbaum, who serves as Chairman of the Administration's Committee on Revenue Sharing, answered some of the key questions that have arisen in connection with the proposal:

Why make the expensive "round trip" of tax dollars to Washington and back again? "Actually, the Treasury has lower tax collection costs than any state or local government agency. Since revenue sharing will not require any new Federal agency or bureau, the round trip will be quite economical."

Do we really have any excess Federal revenue to share? "We are not talking about sending back to the states 'excess' revenues left over from Federal program requirements. We are talking about rearranging existing Federal priorities. The alternative to revenue sharing is not a larger Federal surplus or a smaller deficit, but a higher level of Federal spending on lower priority programs."

Does the proposal provide enough money for the large urban areas? "Nearly every large city will receive more per capita than its smaller neighbors -- not just because they are bigger, but because they bear a larger fiscal burden."

Does revenue sharing separate the responsitility for raising taxes from the act of spending tax revenues? "The real question is control over the funds. We will continue to have some separation of the taxing power and the spending power via Federal aid to the states, counties, and cities. Revenue sharing represents an opportunity for state and local governments to have discretion over the allocation of a modest portion of these funds."

DEPARTMENT OF THE TREASURY
Washington, D. C.

FOR RELEASE UPON DELIVERY

REMARKS BY THE HONORABLE MURRAY L. WEIDENBAUM
ASSISTANT SECRETARY OF THE TREASURY FOR ECONOMIC POLICY
BEFORE THE ANNUAL MEETING OF THE MISSOURI MUNICIPAL LEAGUE
ST. LOUIS, MISSOURI, SEPTEMBER 16, 1970

The Need for Revenue Sharing

We all like to talk about the need to strengthen our Federal form of government, about moving government from Washington closer to the people. Most of the time, let us face it, that is just talk.

However, we in the Nixon Administration are really trying to decentralize government and to take specific action to strengthen local government. We call it the New Federalism. The basic idea of the New Federalism is to shift some measurable part of national decision-making back to state and local governments.

I have come here today to tell you about the program that is at the heart of the New Federalism -- the idea of sharing a portion of Federal revenues with state and local governments, to, in effect, truly Federalize the income taxes collected by the Department of the Treasury.

Before I get into the details, I want to make one fundamental point. I am not just talking about another program of sending Federal dollars around the country -- there certainly is no shortage of ways of doing that already.

What I am talking about is the shift of decision-making power to state and local governments. Revenue sharing is unlike any existing grant-in-aid program. Under revenue sharing, the money that you get from the U. S. Treasury becomes your money. Nobody in Washington tells you how to use the money. Revenue sharing money can go into your general fund, and it is up to you to decide how to spend it.

Incidentally -- and this is a real first -- 100 percent of the revenue sharing appropriation is paid out to the states, cities, and counties. There is no Federal "cut" for overhead or administration. That is part of the beauty of it. We have tried to set it up so that the program will work automatically, without the need for a new Federal bureaucracy.

Let me give you a very brief outline of our revenue-sharing proposal. First, the total size of the fund is fixed by law. You can count on it in your long-term planning. To ease the budget impact, we start small, but there are phased increases to a level of approximately $5 billion in the fiscal year 1976. Thereafter, the amount increases as the economy and our tax base grows.

Second, the distribution among states is on the basis of each state's share of the national population. There is just one simple adjustment -- for the state's own tax effort.

Third, the distribution within each state to the cities and counties is established by formula spelled out in the Federal statute. The key point is that each city and county gets its share as a matter of right and does not have to negotiate with the Federal or state government. The amount which each local government receives corresponds to its share of all general revenues raised in the state by local and state governments.

Fourth, there are no strings or limitations on the use of these funds, no plans to submit for Federal review, and no matching requirements.

During the past year, I have been on what my friends call my private Chautauqua circuit, explaining revenue sharing to governors, mayors, city managers, and other interested people. It has been a pleasant experience to observe the breadth and depth of support for this program which exists in America today. This is why I welcome the opportunity to be here.

In these meetings, a few key questions come up time and again. They may have occurred to you today. Let me, as best I can, provide some answers. But let me assure you I do not consider myself a snake oil salesman -- revenue sharing is no panacea. It will not cure all your problems, but I believe that it will help.

The first question is, Does all the money go to the state governments exclusively? The answer is "No". Each city gets a portion of the revenue sharing fund automatically. We have worked out a guarantee which both protects the cities and maintains the Federal form of government. This is different from most earlier revenue-sharing plans.

It is true that initially the U. S. Treasury makes payments to the states but -- and this is a fundamental "but" -- each state must, in order to qualify for the Federal money, pass on to each city and county a predetermined share. The states have no discretion in this matter. Each state must pass on to its local governments the shares spelled out in the Federal law. This provision is called the mandatory pass-through. It was developed in joint consultations with the National League of Cities, the U. S. Conference of Mayors, the National Governors Conference, the National Association of Counties, and other state and local organizations. The mandatory inclusion of local as well as state governments in Federal revenue sharing has the support of the major state and local associations. I hope that it has yours, too.

The second question is, Does the proposal provide enough money for the large urban areas? I believe that the amounts are quite generous, particularly in view of the national budgetary situation.

Our approach is to distribute revenue-sharing funds within a state to each city and county in proportion to its general revenue collections. So-called "tax havens" with low tax collections and a narrow range of functions will receive very small shares. In contrast, cities with heavy program responsibilities and, hence, large tax revenues will get bigger amounts, even if their populations are the same.

In practice, nearly every large city will receive not just absolutely more money but also more per capita than its smaller neighbors. However, the large central cities will get more revenue-sharing money not just because they are bigger, but because they bear a larger fiscal burden.

The third question is, Why bother to make the expensive "round trip" of tax dollars to Washington -- why not leave the money in those states and localities where it originates?

Actually, the Department of the Treasury has lower tax collection costs than any state or local government agency. Since revenue sharing will not require any new Federal agency or bureau -- all that is required is a simple check-writing procedure -- the round trip will be quite economical.

The fourth question is, Do we really have any excess Federal revenue to share -- won't revenue sharing increase our budget deficit? This question apparently results from some confusion over the purpose and operation of a revenue-sharing program. Revenue sharing is an expenditure for a basic national purpose -- strengthening our Federal system of government. We are not talking about sending back to the states "excess" revenues left over from Federal program requirements. Rather, we are talking about rearranging existing Federal program priorities.

Let me express this important point in a slightly different way. Revenue sharing will not raise the existing Federal tax burden. The alternative to revenue sharing is not a larger Federal surplus or a smaller Federal deficit. The alternative is a higher level of Federal spending in some other -- and, in our view, lower priority -- program areas. In his current budget, President Nixon has proposed substantial expenditure reductions for defense, foreign aid, and space programs; and he has called for termination or money-saving restructuring of various outmoded programs. In turn, he has requested authority to begin a modest program of Federal revenue sharing now, and to increase this program in line with the revenue increases that accompany economic growth. This is a sensible and fiscally responsible step in the reordering of our Federal priorities.

The fifth question -- Is the Administration proposal large enough? I am reminded of Samuel Gompers' answer to a somewhat similar question. His answer was, "More". But, this is not really a basic objection to the substance of our proposal, but rather a disappointment over its size. I can sympathize with such disappointment, but do not believe it is really warranted.. In any event, that is not a reason to withhold your support. Let me give you our reasoning on this.

Given the budget outlook, we realistically faced two alternatives for introducing revenue sharing: (1) either delay introducing the plan until it looked as if enough funds were available to begin a large-scale program, or (2) establish the revenue-sharing program now if only on a modest scale, and provide for future increases as budget pressures permit, and the peace dividend becomes a reality. There is no question in my mind that this second course of action is clearly preferable. With all the competing claims on the Federal Treasury, it is important to establish the principle of revenue sharing as soon as we can -- call it foot in the door, camel's nose under the tent, strike when the iron's hot. I believe that it is the wise decision.

We have deliberately promised only what could be afforded, so that no false expectations might be raised. But please keep in mind that a modest start now does not preclude our increasing the amounts later when we have demonstrated that the revenue-sharing approach works.

Now, let me turn to a question which I get very frequently: Are state and local governments competent to use revenue-sharing money effectively? This question presents a real challenge to you. Personally, I view revenue sharing as an experiment. I hope and believe that it will work. I certainly think that strengthening our Federal form of government by helping state and local governments is an objective worthy of an investment of several billion dollars a year.

Frankly, I am not certain that all of the money will be used wisely. Of course, neither am I certain that all direct Federal spending or indeed that all private spending is sensible. Certainly there is nothing inherent in the revenue-sharing concept which would encourage wasteful spending. Public responsibility must be tied direct to the individuals in charge of conducting government programs, regardless of the source of financing.

I do believe that the ultimate amounts that the Congress will be willing to appropriate for revenue sharing will depend on how effectively the money is used. But, more than money is transferred to state and local governments under our revenue-sharing plan. Unlike the existing grant-in-aid system (which is not affected by the revenue-sharing plan) there are no strings. Decision-making responsibility for the use of these funds is also delegated to the states, counties, and cities. You, and not Federal agencies, will establish priorities. You, and not Federal agencies, will allocate expenditures in accordance with the needs of your jurisdiction, as you see those needs The ultimate success of revenue sharing, therefore, will depend on your ability to make the most efficient and judicious use of these funds.

The Nixon Administration maintains a large measure of confidence in the ability and willingness of local government to respond positively to those particularly local problems which require public solutions. A major purpose of revenue sharing is to enhance the financial ability of state and local government to respond effectively to the urgent problems that face us today. We recognize that all governments are beset with problems. But we are convinced that the potential for effective management of social and public systems is extremely high at the local level.

One question that I get frequently may sound philosophical, but it is important since I get it from the Congress: Does revenue sharing separate the responsibility for raising taxes from the act of spending tax revenues? While this may appear to have a logical ring to it, I believe that it is misleading. It ignores two important facts. At the national level, we have the precedent that the Federal Government already "shares" $25 billion annually, in the form of categorical grants, with state and local governments. At the state level, we have the precedent that every state shares revenue with its local governments, many in a completely unrestricted manner.

The real question is the control over the funds. It seems quite clear to me that we will continue to have some separation of the taxing power and the spending power -- via rising amounts of Federal aid to the states, counties and cities. What revenue sharing does represent is an opportunity for state and local governments to have discretion over the allocation of a modest portion of these funds.

There is a hooker in all this, of course. Revenue sharing will take legislation by the Congress. Bills have been introduced in both the Senate and the House of Representatives to put into law the revenue-sharing plan that I have been describing. Senator Howard Baker of Tennessee and over 30 other Senators have sponsored the Administration bill in the Senate. Congressman Jackson Betts of Ohio and over 80 other Congressmen have sponsored our bill in the House. But we need your support - your strong support. Hence, if you agree with me that revenue sharing will be a good thing for the country, then it is up to you to work for it.

Let me assure you that revenue sharing is a high priority item in the domestic program of the Nixon Administration. In a special memorandum to all senior officials of the Administration, the President recently stated, "I want to emphasize the importance of revenue sharing in our total domestic policy. Revenue sharing is the financial heart of the New Federalism."

I thank you for the opportunity to be here. It is always a pleasure for a Treasury official not to have to collect taxes but to talk about giving some of them back.

oOo

Department of the TREASURY NEWS

INGTON, D.C. 20220 TELEPHONE WO4-2041

FOR IMMEDIATE RELEASE September 15, 1970

TREASURY'S WEEKLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $3,200,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing September 24,1970, in the amount of $3,103,440,000, as follows:

91-day bills (to maturity date) to be issued September 24, 1970, in the amount of $ 1,800,000,000, or thereabouts, representing an additional amount of bills dated June 25, 1970, and to mature December 24, 1970, originally issued in the amount of $ 1,302,570,000, the additional and original bills to be freely interchangeable.

182 - day bills, for $1,400,000,000, or thereabouts, to be dated September 24, 1970, and to mature March 25, 1971 (CUSIP No. 912793 KA3).

The bills of both series will be issued on a discount basis under ompetitive 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, $15,000, $50,000, $100,000, $500,000 and $1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Daylight Saving time, Monday, September 21, 1970. Tenders will not be received at the Treasury Department, Washington. Each tender must be for a minimum of $10,000. Tenders over $10,000 must be in multiples of $5,000. 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 accompanie 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 September 24, 1970, in cash or other immediately available funds or in a like face amount of Treasury bills maturing September 24, 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.

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 considered to accrue when the bills are sold, redeemed or otherwise disposed of, and the bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder must include in his income tax return, as ordinary gain or loss, the difference between the price paid for the 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.

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.

oOo

Department of the TREASURY

INGTON, D.C. 20220 TELEPHONE WO4-2041

NEWS

FOR IMMEDIATE RELEASE

September 15, 1970

MISS PHYLLIS SHANTZ SWORN IN AS FIRST WOMAN MEMBER OF EXECUTIVE PROTECTIVE SERVICE

Miss Phyllis Shantz of Rome, New York was sworn in today by Eugene T. Rossides Assistant Secretary of the Treasury for Enforcement and Operations, as the first woman member of the newly established Executive Protective Service (EPS) a uniformed force supervised by the Secret Service.

Miss Shantz and six more women who will join the EPS soon will assist with the responsibilities of the Executive Protective Service, which are: the protection of the White House, the President and the members of his immediate family, and diplomatic missions in the metropolitan area of Washington, D.C.

Policewomen of the Executive Protective Service will also interview juveniles and females who come to the attention of the Secret Service and the Executive Protective Service during the course of their protective activities, and when necessary, will supervise their custody.

The women selected having prior police experience will receive in-service training, while those having no prior police experience will participate in the EPS Recruit Training Course.

The salary, benefits, and promotional opportunities will correspond with those for other EPS officers.

Physical requirements are basically the same as Civil Service Commission requirements for the position of policewomen with the Metropolitan Police Department.

###

Department of the TREASURY

INGTON, D.C. 20220 TELEPHONE WO4-2041

NEWS

R RELEASE AT 10:00 P.M.
JESDAY, SEPTEMBER 15, 1970

SECRETARY KENNEDY LEADS UNITED STATES
DELEGATION TO IMF-WORLD BANK MEETINGS

Treasury Secretary David M. Kennedy will lead a nited States delegation to Copenhagen, Denmark, for the 970 annual meetings of the International Monetary Fund and he International Bank for Reconstruction and Development, eptember 21 through September 25.

Secretary Kennedy is U.S. Governor of the Fund and of ne Bank.

The delegation will depart Andrews Air Force Base, near ashington, Thursday morning. En route it will stop in russels where Secretary Kennedy and Arthur Burns, nairman of the Board of Governors of the Federal Reserve ystem, will participate in a meeting, September 18-19, of ne Ministers and Governors of the Group of Ten. The inance Ministers and Central Bank Governors of the ten major ndustrial countries, which are members of the IMF General rrangements to Borrow, have customarily met each year at the ime of the Annual Meetings of the Fund. They are meeting n Brussels at the invitation of the current chairman, aron Snoy et d'Oppuers, Minister of Finance of Belgium.

Following the IMF-Bank meetings Secretary Kennedy will top at Madrid for discussion of topics of mutual interest ith several Spanish Government ministers, September 25-26. nairman Burns will call on the Governor of the Bank of pain and other government officials.

Among those in the official U.S. delegation in addition to Mr. Burns will be:

Paul A. Volcker, Under Secretary of the Treasury for Monetary Affairs; Paul W. McCracken, Chairman of the Council of Economic Advisers; Nathaniel Samuels, Deputy Under Secretary of State and Alternate Governor of the Fund and Bank; Samuel R. Pierce, General Counsel of the Treasury; and John R. Petty, Assistant Secretary of the Treasury for International Affairs.

Others in the delegation will include: William McChesney Martin and Marriner Eccles, former Chairmen of the Federal Reserve Board; John Snyder, Henry H. Fowler and Joseph W. Barr, each a former Secretary of the Treasury; William B. Dale, U.S. Executive Director of the Fund, and Robert E. Wieczorowski, U.S. Executive Director of the Bank.

Congressional advisors and observers expected to join the official delegation include:

Wright Patman, Texas, Chairman of the House Banking and Currency Committee; and William B. Widnall, New Jersey, ranking minority member of the House Banking and Currency Committee; and Albert W. Johnson, Pennsylvania; Chester L. Mize, Kansas, and Garry Brown, Michigan, members of the House Banking and Currency Committee.

oOo

Department of the TREASURY NEWS

HINGTON, D.C. 20220 TELEPHONE W04-2041

FOR IMMEDIATE RELEASE September 16, 1970

MELVIN MASUDA APPOINTED WHITE HOUSE FELLOW

Melvin M. M. Masuda, a native of Hawaii, has been appointed a White House Fellow and assigned to the Office of the Secretary of the Treasury.

Mr. Masuda, 27, received a B.A. degree from Princeton University in 1965. In 1968 he earned a LL.B. degree from Yale Law School where he served as an editor of The Yale Law Journal.

Before his appointment as a White House Fellow, Mr. Masuda was an attorney in private practice in Honolulu with the firm of Carlsmith, Carlsmith, Wichman and Case. Recently, he was appointed special assistant to the President of the University of Hawaii.

Established in 1964, the White House Fellows program is designed to give potential leaders a year of first-hand, high-level experience working with government officials in formulating and effecting national policy. In his assignment to Treasury Secretary David M. Kennedy and his staff, Mr. Masuda will be able to observe and study Treasury's domestic and international operations.

In addition to their jobs, White House Fellows participate in an educational program that includes informal discussion with government officials, scholars, journalists, and leaders from other segments of private life.

oOo

Department of the TREASURY NEWS

IINGTON, D.C. 20220 TELEPHONE WO4-2041

FOR RELEASE AT 3:30 P.M., E.D.T.,
WEDNESDAY, SEPTEMBER 16, 1970

U. S. ANNOUNCES SEVERAL PARTIALLY OFFSETTING TRANSACTIONS WITH INTERNATIONAL MONETARY FUND

The United States Treasury today announced several partly-offsetting gold and SDR transactions with the International Monetary Fund to take place this month.

The first of these transactions is related to a decision of the IMF, announced today, to sell $325 million in gold to replenish its holdings of various currencies. The United States' share is about $132 million. The United States has exercised its option to take $30 million of this amount in SDR's in lieu of gold.

In connection with the decision to sell $325 million in gold, the IMF will withdraw approximately $23 million from its $210 million deposit of gold with the U.S. Treasury. This gold was deposited in connection with the quota increases that took place in 1965-1966. The deposit was designed to mitigate the effects of the U.S. gold stock of concentrated purchases from the United States by other countries which had to pay gold to the IMF at the time of the quota increases. It was agreed at that time that future sales of gold by the Fund would normally be made in part from such deposit in proportion to the amount that the deposit bore to total IMF gold holdings.

In a second transaction, the IMF has also agreed to a Treasury proposal that the IMF repurchase at this time $400 million of the $800 million in gold that the United States had purchased from the Fund in the years 1956, 1959 and 1960. These sales to the United States were made to provide the IMF with funds for investment to augment its other income in order to meet its administrative expenses and to establish a reserve. Since the need for this investment has been reduced, half of this investment is being eliminated.

(OVER)

The IMF will obtain the funds to repurchase the gold by selling U.S. Treasury bills from its investment account. This sale will be arranged in such a way as to minimize any impact on the money market and bank reserves.

The result of these transactions will be a reduction of about $322 million in the U.S. gold stock and an increase of $30 million in U.S. SDR holdings. In connection with the reduction in the gold stock, the Treasury will transfer $250 million in gold from the General Fund to the Exchange Stabilization Fund to replenish the balance of the ESF. As a result of this transfer, an equivalent amount of gold certificates issued by the Treasury to the Federal Reserve System will be redeemed.

epartment of the TREASURY NEWS

GTON, D.C. 20220 TELEPHONE W04-2041

FOR IMMEDIATE RELEASE

REMARKS OF THE HONORABLE
DAVID M. KENNEDY
SECRETARY OF THE TREASURY
BEFORE THE JOINT LUNCHEON SESSION OF
NATIONAL COMMITTEE OF NEWSPAPER PUBLISHERS
AND
NATIONAL PANEL ON PUBLIC RELATIONS FOR U. S. SAVINGS BONDS
WASHINGTON ROOM, WASHINGTON HOTEL
WEDNESDAY, SEPTEMBER 16, 1970, 1:15 P.M., EDT

MR. CHAIRMAN, LADIES AND GENTLEMEN:

I've had the privilege of addressing few groups with which I feel as much at home as with yours. We share common concerns for the welfare of our communities and for our national family of communities. We are charged with serving the well-being of the public, and we view an improved Savings Bonds Program as a means of benefiting the people of communities everywhere, particularly the employed population.

You are the leaders of communications. You maintain the means of articulating ideas. I can think of no more vital time for us to enjoy your interest and support. We are met together shortly following President Nixon's signing legislation -- retroactive to June 1 of this year -- which improved the advantages of Savings Bonds ownership.

Those holding Savings Bonds until maturity and those retaining matured bonds through a period of extended maturity, will receive a 1/2-percent bonus. The 1/2-percent bonus assists our financial structure, by encouraging longer-term saving and by helping to restrain the inflation on which we've already tightened the reins. At the same time, it rewards the publics of your communities -- indeed all Americans -- by providing a better return. And we intend to review the Savings Bonds Program with regularity, to make sure that it fulfills its mission.

There are four major objectives of that mission --

- Savings Bonds are intended to encourage -- and provide a convenient means to achieve -- the principle of thrift *and* individual financial security as a *national* goal. Savings Bonds stimulate regular savings habits.

- Savings Bonds provide the average saver a handy and secure method, offering a fair and reasonable return, in which to place his faith and his funds. Bonds also serve those wishing to diversify their savings. But the program is *not* intended to draw funds from private institutions through aggressive competition. Often Savings Bonds purchases lead to the opening of accounts in private savings sectors.

- And Savings Bonds provide the people of your communities -- all communities -- with an opportunity to participate directly in government financing.

- We intend that the Savings Bonds Program shall continue as an important tool in national debt management, by supplementing other sources of funding the government.

I appreciate how busy you are, and yet you have taken time to offer us the very skills and talents that have enabled you to become masters of your enterprise. I want to thank you for this important public service you are giving - on top of many, many others I know you are called upon to give.

I understand that this morning's sessions have provided provocative and promising ideas. I am confident that the remaining sessions will be as productive. We need your "advice-and-action."

I have thoroughly enjoyed meeting with you and am pleased now to present certificates of appointment to the members of the National Committee of Newspaper Publishers and the National Panel on Public Relations for U. S. Savings Bonds.

And now Jim Coleman, I've saved you for last, because we wish to present something else to you, in addition to your certificate of appointment. This Liberty Bell Award is presented to "James T. Coleman, who, as Chairman of the National Panel on Public Relations for U. S. Savings Bonds, serves with dedication and distinction in this leadership mission." Jim, congratulations.

Thank you, Mr. Chairman, and ladies and gentlemen.

Department of the TREASURY

NGTON, D.C. 20220 TELEPHONE WO4-2041

NEWS

IMMEDIATE RELEASE September 17, 1970

TREASURY'S MONTHLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders for series of Treasury bills to the aggregate amount of $ 1,700,000,000, thereabouts, for cash and in exchange for Treasury bills uring September 30,1970, in the amount of $ 1,505,392,000, follows:

273-day bills (to maturity date) to be issued September 30, 1970, the amount of $500,000,000, or thereabouts, representing an itional amount of bills dated June 30, 1970, and to mature e 30, 1971, originally issued in the unt of $1,201,430,000, the additional and original bills to be ely interchangeable.

365-day bills, for $ 1,200,000,000, or thereabouts, to be dated tember 30,1970, and to mature September 30, 1971 SIP No. 912793 KS4).

The bills of both series will be issued on a discount basis under petitive and noncompetitive bidding as hereinafter provided, and at urity their face amount will be payable without interest. They will issued in bearer form only, and in denominations of $10,000, $15,000, ,000, $100,000, $500,000 and $1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up the closing hour, one-thirty p.m., Eastern Daylight Saving e, Thursday, September 24, 1970. Tenders will not be received at the asury Department, Washington. Each tender must be for a minimum of ,000. Tenders over $10,000 must be in multiples of $5,000. In the e of competitive tenders the price offered must be expressed on the is of 100, with not more than three decimals, e.g. 99.925. ctions may not be used. (Notwithstanding the fact that the one-year ls will run for 365 days, the discount rate will be computed on a bank count basis of 360 days, as is currently the practice on all issued of asury bills.) It is urged that tenders be made on the printed forms forwarded in the special envelopes which will be supplied by Federal erve Banks or Branches on application therefor.

Banking institutions generally may submit tenders for account 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 receive 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 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 bidde will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on September 30, 1970, in cash or other immediately available funds or in a like face amount Treasury bills maturing September 30, 1970. Cash and exchange tenders will receive equal treatment. Cash adjustment will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

Under Sections 454 (b) and 1221 (5) of the Internal Revenue Code 1954 the amount of discount at which bills issued hereunder are sold is considered to accrue when the bills are sold, redeemed or otherwise disposed of, and the bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder must include in his income tax return, as ordinary gain or loss, the difference between the price paid for the 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.

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.

oOo

epartment of the TREASURY

NEWS

TON. D.C. 20220 TELEPHONE WO4-2041

FOR IMMEDIATE RELEASE September 17, 1970

TREASURY ISSUES DUMPING FINDING WITH RESPECT TO WHOLE DRIED EGGS FROM HOLLAND

Assistant Secretary of the Treasury Eugene T. Rossides announced today that the Treasury Department has issued a dumping finding with respect to whole dried eggs from Holland. The finding will be published in the Federal Register of Friday, September 18, 1970.

On April 21, 1970, the Treasury Department advised the Tariff Commission that whole dried eggs from Holland were being sold at less than fair value within the meaning of the Antidumping Act, 1921, as amended.

On July 31, 1970, the Tariff Commission issued a determination that an industry in the United States is being injured by reason of the importation of whole dried eggs from Holland sold, or likely to be sold, at less than fair value within the meaning of the Antidumping Act, 1921, as amended.

During the period January 1, 1969, through June 30, 1970, whole dried eggs valued at approximately $750,500 were imported from Holland.

oOo

K-485

epartment of the TREASURY
GTON, D.C. 20220 TELEPHONE WO4-2041

NEWS

September 17, 1970

FOR IMMEDIATE RELEASE

MEMORANDUM FOR THE PRESS:

Attached is a letter sent by the Treasury to the New York Times.

oOo

Attachment

OFFICE OF THE SECRETARY OF THE TREASURY
WASHINGTON, D.C. 20220

September 16, 1970

Dear Sir:

In your editorial "Pollution and Taxes," on September 14, 1970, you state that the case for the tax on lead in gasoline is ambiguous. The editorial, however, does not reflect a full understanding of the merits of this proposal.

This tax is not being proposed primarily as a revenue measure. If revenue were the goal, it would have been appropriate to capitalize on the petroleum refiners' inability to avoid using lead additives by imposing a significantly higher tax. Your assertion that a tax steep enough to discourage sales would bring in little revenue fails to recognize that on a short term basis, gasoline refiners would not be capable of producing large quantities of lead free gasoline of an octane rating sufficient to satisfy the needs of a large number of automobiles currently on our highways.

You state that this tax is an interim measure. You are quite correct; but it is an interim or transitional step in our environmental control program to deal with air pollution, not an interim device to raise revenue. Of course any resulting revenue will be helpful in offsetting the deficit in the fiscal 1971 budget, but that is not the motivating factor. The tax is a vital element in a well planned, concerted, government-wide effort to attack the problem of automotive air pollution.

As your editorial correctly points out, leaded gasoline is truly dangerous to the environment. However, the existing family of automobiles on the road were built to operate on 94 octane (regular) and 100 octane (premium) gasoline, and it would be prohibitively costly to consumers to require production of gasolines of these octane ratings without lead over the next four or five years. At the same time, the 1971 and subsequent family of automobiles are being built to operate on 91 octane gasoline which can be produced without lead, or with very low lead, at a cost averaging only two to three cents per gallon more than 94 octane leaded gasoline. Thus, we have an extraordinarily difficult transition problem -- in the short run, we must allow leaded gasoline to be produced for old automobiles but induce owners of new automobiles to use lower octane unleaded gasoline which costs more than leaded gasoline. The proposed tax, which would make 94 octane regular gasoline slightly more expensive than 91 octane unleaded gasoline, is the only way to achieve this transition.

Stated another way, without the tax, refiners will produce leaded gasoline of regular grades at a price lower than unleaded gasolines of the lower octane ratings that are satisfactory for the new automobiles currently being produced to operate on such low octane gasoline. It is self-evident that consumers will not accept a higher price for a lower octane rated gasoline. Faced with this lack of consumer acceptance, gasoline refiners would have little incentive to undertake the conversion necessary to make available large quantities of unleaded and low leaded gasolines. Yet large quantities of unleaded gasolines must be available by the summer of 1974 to make the emission control devices that will be installed on new automobiles produced after that time operate properly.

Thus, the principal effect of the tax will be to provide an economic incentive to produce such low octane unleaded gasolines by placing a premium cost on the use of lead additives. No method has been advanced, other than the proposed tax, which will create this needed economic incentive. It is apparently the only answer to the difficult transitional problem we face in our program to reduce automotive pollution.

Your editorial states that unleaded high octane gasolines produce higher emissions of hydrocarbon and thus more smog. The study upon which this assertion is based was developed with reference to premium grade gasoline, not regular, and is subject to serious doubt in the scientific community. Even if true, it has no bearing upon the lead tax proposal because the tax rate is not high enough to preclude the use of lead additives in premium grades. Furthermore, it is doubtful that the refiners have the capacity to shift to unleaded premium grades on a short term basis. By the time that capacity has been achieved, the new pollution control devices will be operating to limit significantly the hydrocarbon emissions.

Sincerely yours,

(signed) John S. Nolan

John S. Nolan
Deputy Assistant Secretary for Tax Policy

Editor, The New York Times
229 W. 43rd Street
New York, New York 10036

Removal Notice

FRASER

The item identified below has been removed in accordance with FRASER's policy on handling sensitive information in digitization projects due to

Citation Information

Document Type: **Number of Pages Removed:**

Author(s):

Title:

Date:

Journal:

Volume:

Page(s):

URL:

Federal Reserve Bank of St. Louis https://fraser.stlouisfed.org

Department of the TREASURY NEWS

HINGTON, 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 WASHINGTON, D. C., CHAPTER OF THE
DAUGHTERS OF THE AMERICAN REVOLUTION
SUNDAY, SEPTEMBER 20, 1970, 2:30 P.M., EDT

THE PRICE OF GOOD CITIZENSHIP

It is a pleasure for me to be here and to take part in the celebration of the 183rd Anniversary of the signing of the Constitution. When I was sworn in as an Assistant Secretary of the Treasury, I took an oath to uphold the Constitution of the United States. Therefore, I would like to take this occasion to present my ideas on what it truly means to uphold the Constitution -- and not just from the vantage point of an office-holder but from the point of view of every citizen.

Let us turn to the preamble of the Constitution itself, to those stirring words which set a tone, and not that of an arid and antiquated document but of a very deep concern with the relation of the individual and his government and his society -- "... to form a more perfect union ...", here we have the early and continuing question of the relationship between the states and the national government within a Federal system; "... establish justice ...", an ever-present concern; "... insure domestic tranquility ...", the very real problem of the peaceful relation of our people with each other; "... provide for the common defense ...", the burden of armaments as a continuing responsibility of us all; "... promote the general welfare ...", the noble thought of the greater good of the Commonwealth rather than merely our individual needs; "... and secure the blessings of liberty to ourselves and our posterity ...", that clear indication of the long-term nature of our Constitutional responsibilities.

The specific question I would like to discuss is how do we achieve these fundamental objectives of the Constitution. Let me assure you that I do not pretend to have the answer.

K-486

Rather, here are the views of one fellow citizen as to some of the things that should be included in the role of the good citizen.

There are some simple and obvious things that we can do to show our love of country and our support of its principles of government. For example, my family displays the flag on holidays and other appropriate occasions. We have a flag decal on the family car. We go to Fourth of July celebrations and similar patriotic events (and we continue to respect those who do not do any of these things).

Yet, I am impressed by the compelling belief that these desirable manifestations of patriotism are the capstone of a much larger structure of actions -- the tip of the iceberg, so to speak. As I see it, to truly uphold the Constitution also requires taking and supporting those sometimes difficult and even unpleasant actions which will help to achieve its basic and stated purposes.

Some of the actions that I have in mind may cost us money; others may involve our doing without something that we would like to have; still others may require us to go out of our way to do something we would rather not bother doing. It is the totality of these voluntary actions that we take which are motivated not by our immediate self-interest but in order to make for a better country that I call the price of good citizenship.

Let me provide some examples. We hear a great deal of talk these days about cleaning up the environment, reducing crime, restoring fiscal responsibility, strengthening government at the grass roots, and so forth. Frankly, I find it easy, perhaps too easy, to get people to agree, even enthusiastically, with the need to achieve these objectives. I say perhaps too easy because what is disconcerting is that too many of the same people seem to lose interest in the subject when we get down to the hard decisions of how to actually accomplish these laudable purposes and to pay for them.

As one example among many, let us take the desire to restore fiscal responsibility in the Federal Government, to get government spending under better control. The generalized support for lower budgets clearly is not enough. How many citizens actually stand up and oppose a spending program which would benefit their area or their segment of the economy even though they know they really can do without it? I'm afraid that my definition of good citizenship does not end where a person's self-interest begins.

We hear so much these days about the need for cleaner air. To help accomplish this objective, the Department of the Treasury has urged the Congress to enact a tax on the lead going into gasoline because the lead is such a major pollutant; this would encourage people to buy unleaded gasoline and companies to shift more quickly into the production of more unleaded gasoline. How many of our citizens who support a cleaner environment have done something specific to further the passage of this "cleaner air" legislation?

Let me take another case. We all have been concerned over the need to strengthen state and local governments. There is a specific way of doing that. It is not a panacea, but it is a major innovation in terms of shifting governmental power back to state governments, county governments, and city governments. I have in mind our program of sharing a portion of Federal revenues with state and local governments. It is a basic part of the President's New Federalism effort. How many of our citizens who have supported the numerous state and city resolutions in favor of revenue sharing have followed that up with some specific action in order to obtain congressional hearings for this legislation?

In the important area of crime control, the Congress has thus far enacted only two of the many specific proposals contained in the President's October 1969 message. As I list some of the President's proposals which have not yet been enacted, think about what, if anything, you have done personally to further these constructive steps.

--- The proposed Controlled Dangerous Substances Act. This bill would substantially revise existing drug laws by providing new means for controlling dangerous drugs, by establishing a new, comprehensive, and realistic penalty structure, and by providing more effective enforcement tools.

--- The proposed Organized Crime Control Act. This bill embodies the recommendations of the President's Crime Commission and of the National Commission on Reform of Federal Criminal Laws.

--- The proposed Explosives Regulation legislation. This would regulate more effectively the importing, manufacture, and dealing in explosives.

--- The Omnibus Crime Control and Safe Streets Amendments. This legislation would expand and continue the work of the Law Enforcement Assistance Administration which is helping state and local governments strengthen their law enforcement programs.

It would seem that too little of the generalized concern over the problem of crime has yet been translated into actual working for and supporting of constructive measures which would actually help to reduce crime.

The general point I am trying to make here transcends the merits of these individual proposals. Indeed, reasonable men and women may differ on many of the particulars. Rather, my point is that the price of good citizenship is far higher than merely nodding (or even shouting) approval of general and often vague objectives. The price of good citizenship is to do something that may cost the individual something -- in either money or leisure time, and to do it with good grace -- or to forego doing or getting something at the expense of the Commonwealth. Maybe it is a frame of mind that gets a positive value out of doing something that will make this a better country.

If anyone finds it particularly easy or comfortable trying to help in even a small way to achieve these objectives, I suggest that he may be defining them too narrowly. This is a difficult period in which we are in, and it will at different times require some abstinence or some difficult actions in order to maintain the strength and vitality of our country.

I would like to cite a simple but basic example. I believe that it is important for each citizen to make his or her views known on the critical issues of the day. But how many people actually sit down and carefully study the question, how many go to the library and read even the layman's summary of a proposed bill before writing to their elected representatives or to the responsible government department? I would suggest that those who have done their homework in this regard -- including seriously considering the views of those on the opposite side of the question -- find that, in turn, their views are considered more seriously and have greater effect.

If I may sum up, in order to uphold the Constitution, we, of course, must obey the laws which have been enacted pursuant to the Constitution. That is surely essential, but just the irreducible minimum. But I just do not think that is enough. We must each in our daily lives do those additional and positive things which will "... form a more perfect Union, establish justice, insure domestic tranquility, provide for the common defense, promote the general welfare, and secure the blessings of liberty to ourselves and our posterity ..."

oOo

Department of the TREASURY NEWS

NGTON, D.C. 20220 TELEPHONE W04-2041

FOR RELEASE ON DELIVERY

REMARKS BY BRUCE K. MacLAURY
DEPUTY UNDER SECRETARY
FOR MONETARY AFFAIRS
THE DEPARTMENT OF THE TREASURY
BEFORE THE NATIONAL ASSOCIATION
OF BANK WOMEN
MAYFLOWER HOTEL, WASHINGTON, D. C.
SEPTEMBER 21, 1970, 2:00 P. M.

Debt Management - Relevance for Economic Policy

I want to thank you for this opportunity to participate in your annual meeting, and share some thoughts with you on the subject of debt management in today's world.

If you are wondering why, with all of the exciting topics of current interest and concern, I have chosen debt management from the bottom of the pile, I can fully sympathize with you. There are basically two reasons -- first, and most obvious, the problems of managing the public debt are part of my daily life at the Treasury. And just as collectors of butterflies can wax ecstatic about the secret life of the swallowtail, I find a certain drama in the arcane mysteries of pricing a note refunding in an uncertain market. But this would not be sufficient reason to bother you with the subject, were it not for a second fact -- quite simply, that debt management has been so far down toward the bottom of the pile of subjects that people talk about, that it's time to dust it off and take a look at it again, if only to see whether its obscurity is deserved.

Debt management, as a national concern, is no Johnny-come-lately on the scene. In fact, one of the major accomplishments of the illustrious first Secretary of the Treasury, Alexander Hamilton, was to bring order out of the chaos that was the legacy of financing the Revolutionary War. Consolidating and funding the hodge-podge of earlier issues was a first order of business if the credit of the new nation were to be established with foreign lenders on whom we depended at that time.

Over the years, the mores of prudent debt management have changed, reflecting the changing role of the Federal Government in the economic life of the nation. There was a time, not too many years ago, when the notion of a "permanent" debt was abhorrent (even though in fact, the debt -- except for one brief moment -- had been permanent.) During that period the maxims of debt management were simple: (1) Avoid a "floating" debt -- one that was short-term and, hence, troublesome. (2) To do so, fund the debt into long-term obligations. (3) Finally, pay the debt off in orderly fashion as it comes due.

The Great Depression of the 1930's and World War II changed all that. Out of the experience of the thirties there emerged a changed theory of the role of government in the economy. This change was formalized in the Employment Act of 1946 -- in which the Federal Government pledged itself to promote stable growth. And out of World War II came an unprecedented national debt. At the end of hostilities, that debt stood at just under $260 billion -- nearly 1 - 1/4 times the total national output at that time.

In the years that have followed, there has been a growing acceptance of the fact that the Federal debt is a permanent, and indeed necessary, fixture in the financial life of the nation. Given this acceptance of Federal debt as a fact of life, attention has turned from the frustrating and futile exercise of devising ways to pay off the debt -- though we still get a good number of suggestions as to how this could be accomplished in the day's mail -- to the problem of finding ways to manage the debt and, at the same time, contribute to national economic policy.

There is the old saw about economists, that if all of them were laid end-to-end they wouldn't reach a conclusion. Alas, I must report to you that economists are not in full agreement about debt management.

There are basically three views on the subject. One, the least ambitious -- but not necessarily the least sensible -- is to work toward a manageable debt structure and stick with it throughout the interest rate cycle -- sort of a dollar-averaging approach to debt management. A second view would place greater responsibility on the Treasury to minimize the interest burden on the taxpayer by minimizing the costs of servicing the debt. The third view emphasizes the role of debt management as a tool for positive economic management in altering the overall liquidity of the economy. While it is sometimes the case that alternative views of the same process lead to identical policy prescriptions, these varying views of the role of debt management unfortunately do not. They lead to quite different guides to action.

The dollar averaging approach to debt management is based on several plausible assumptions:

> First, that there exists at any point in time a maturity structure for the federal debt that facilitates the management -- i.e., refinancing -- of that debt in the least obtrusive manner, and, on average, at reasonable interest cost.
>
> Second, that Treasury officials, despite their presumed competence, are in no better position to forecast interest rate fluctuations than other market participants, and therefore should not be expected to gamble the taxpayers' money on their assessment of the likely interest rate swings, and
>
> Third, that the possible advantages of either the "minimum cost" or "liquidity management" approaches are outweighed by the risk of potentially disruptive effects on financial markets and the economy from well-intentioned but poorly executed pursuit of either of these goals.

The "minimum cost" approach is more ambitious in that it places a greater premium on keeping interest costs low, and would argue that Treasury officials who aren't willing to be judged by their performance against this standard don't deserve the job. Obviously, there is great appeal to the notion that with the taxpayer paying the freight, borrowing operations ought to be handled in such a way as to minimize interest costs. (And there may be some appeal to the notion of frying Treasury officials for mismanagement!)

In theory, the prescribed course of action is simple enough -- borrow long when interest rates are low, and short when they are temporarily high.

But as anyone knows who has tried to play that game, it's pretty difficult to know with confidence when interest rates are temporarily high. In fact, given the generally rising interest rate trend over the postwar period, and the unprecedented rise in rates during the last couple of years, those who felt that they were minimizing interest costs by staying short -- and they were certainly a majority -- found that just the opposite turned out to be the case.

Finally, the third, or "liquidity management" approach argues that the Federal Government should use all the tools at its disposal, including debt management, in an effort to keep the economy tracking close to its full-employment potential. Again, in theory, the prescription is easy enough -- shift debt toward the long end of the maturity spectrum whenever the pace of economic activity is overheated, with a view to 1) raising long-term rates and thus discouraging investment, and 2) reducing the liquidity of the economy and thus the potential for spending. And the opposite, of course, in periods of economic slack.

As you will note, this policy prescription is just the contrary of the "minimum cost" approach, and any debt manager who simultaneously tried to achieve both would be schizophrenic or worse. In any case, serious questions have been raised as to the validity and practicability of trying to influence the course of the economy through debt management. For one thing, debt management, in the sense of liquidity management, is now frequently considered to be just a branch, and a not very important branch, of monetary policy. On this argument, anything that could be achieved by the Treasury through shifting the maturity structure of the public debt countercyclically could be achieved more effectively by the Fed, so why go through all the fuss. Second, there is a question as to whether anything at all is accomplished from the point of view of influencing the economy by changing the maturity composition of the public debt. It is argued that at any given time, holders of securities have a structure of liquidity preferences, and that small changes in the interest rate curve will induce shifts in private debt that would offset the influence of shifting public debt. In other words, aggregate liquidity can be influenced by monetary policy, but it cannot be influenced by changing the maturity structure of one segment, even though an important segment, of the total debt outstanding. Lastly, even if the liquidity management approach were without critics on theoretical grounds, there is a real question as to how effectively it could be put into practice, at least during periods of credit restraint. There is a limited appetite for long-term government debt at any time, and contrary to what might seem logical, shoving out long-term debt in an unreceptive market doesn't just raise interest rates, it can demoralize the market itself.

Apart from the theoretical uncertainties and the practical constraints that I have mentioned so far, there are several other factors that seem to me to argue for a modest rather than an ambitious goal for debt management. One of these may surprise you -- namely, that the federal debt is becoming an increasingly less significant magnitude in the financial firmament. I have heard many comments about the crushing burden of the federal debt. In some sense, this may be true -- and whether true or not, it is certainly still a good target for political epithets. But that fact is public debt in the hands of private investors has actually declined by about $6 billion since 1945. It's quite true that the total of public debt securities outstanding has increased from the $260 billion figure I mentioned at the outset to $364 billion at the end of last year. But during this same period, various government trust funds have absorbed some $65 billion, and the Federal Reserve, to provide for the necessary increase in the money supply, has added $33 billion to its holdings of Government securities.

The decline in the role of federal debt is even more dramatic when compared with other economic magnitudes. For example, government debt in private hands was somewhat greater than our total national output in 1945, as I indicated earlier, but by last year, growth in output reduced the relative size to one-third of GNP. Similarly, during this period when total public debt increased less than 40%, corporate debt rose more than 6 times, mortgage debt 9 times, and consumer debt 20 times.

Obviously, the declining relative weight of Federal debt has a bearing on the relevance of the liquidity management view as a guide to debt management actions. In other words, even if shifts in the maturity structure of the Federal debt did affect the economy, it is clear that the potential for any such effect has been dwindling with the passage of time, and is small relative to the potential effects of shifts in other forms of debt outstanding.

Though it may sound paradoxical, this declining relative importance in the size of the public debt has not brought with it parallel benefits in the ease with which the debt can be handled. There are several reasons for this. First, there are sharp seasonal swings in federal revenues, both within the year and within each month, that have to be bridged through flexible borrowing. Second, there are times such as FY '68, when the federal budget runs into sizable deficit, with the result that the Treasury must come to the market for large amounts of new cash. Finally, the Treasury in recent years has had to manage the debt with one hand tied behind its back, so to speak. It may sound incredible, but we are limited by a law dating from the first world war, half a century ago, to paying no more than 4 1/4 percent on bonds. This constraint has meant that the Treasury has been unable to issue any debt beyond seven years maturity since 1965. With the passage of time taking its inevitable toll, the average maturity of the marketable debt has dropped from 5 years 4 months to 3 years 8 months. In effect, we have had to run increasingly fast just to stand still, as the volume of maturing coupon issues has risen to over $20 billion per year.

In fact, given the limitation of the 4 1/4 percent ceiling, the discussion of alternative strategies for debt management becomes somewhat academic. This becomes clear when you realize that the Treasury has offered the longest maturity legally open to it in nearly every refunding since 1965. And despite this, the volume of short maturities has been increasing. In other words, far from having the luxury to choose among various debt management goals, there is a serious question as to whether we have even been able to achieve the minimum target of stabilized dollar averaging.

Within these various constraints, the Treasury does, of course, take into consideration not only immediate market factors, but the state of the economy more generally, in deciding on a particular pattern for meeting its cash and refunding needs in a given period. Despite the limited range of available options, there are opportunities for shading the relative attractiveness of issues in various maturities, and for altering the mix between bills and coupon issues. Thus, while there is little opportunity for any sizable shifting of public debt maturities, we do try to insure that the marginal impact of our operations is consistent with the needs of the market and the economy in a given situation.

If debt management in the traditional sense of handling the government's own obligations efficiently holds little scope for innovation at the moment, (and this does not rule out certain improvements in technique) there is a related area where new thinking and possibly new institutional arrangements are called for. I have in mind the growing importance of federally-sponsored credit programs. There is not time to go into this matter in any detail today. But let me mention that from a mere one percent of public debt issues in 1954, the obligations of federally-sponsored agencies such as FNMA, the Home Loan Bank, the Farm Credit Agencies, etc., have expanded to the point that they are now equal to 10 percent of the public debt. The fact that these agencies are now outside the federal budget, and that they are likely to be joined by new sister acronyms such as Sally Mae, EFA, etc., means that the task of insuring orderly marketing, and keeping some sort of control over their aggregate demands on the capital markets, is at one and the same time becoming more necessary and more difficult.

Thus, while the subject of debt management in the traditional sense may deserve the low profile it has had in recent years, the challenge of coordinating expanding federal credit programs requires more airing than it has had to date. And for this reason, among others, I'm delighted to have had this opportunity to touch upon it briefly before this group of opinion makers in the financial field.

oo 00 oo

Department of the TREASURY

IINGTON, D.C. 20220 TELEPHONE W04-2041

NEWS

FOR IMMEDIATE RELEASE September 18, 1970

TREASURY DEPARTMENT ANNOUNCES PREDEPARTURE INSPECTION PROGRAM TO COMBAT AIR PIRACY

Assistant Secretary of the Treasury Eugene T. Rossides announced today, after consultation with the Department of Transportion and the Air Transport Association, that the Bureau of Customs is being instructed to institute, as part of the President's anti-air piracy program, a predeparture inspection procedure for aircraft bound for overseas destinations.

The new program will include instructions to Customs inspectors to examine the hand baggage of outbound passengers and, whenever appropriate, suspected individuals will be searched for instruments of piracy or sabotage.

The program is going into effect today at John F. Kennedy International Airport, New York and at New Orleans and Dulles International Airports.

On Saturday the program will be initiated at a number of additional airports. The program will be expanded in the immediate future to include all gateway airports used by international travelers.

oOo

K-488

STATEMENT OF HONORABLE MEADE WHITAKER
TAX LEGISLATIVE COUNSEL
UNITED STATES TREASURY DEPARTMENT
BEFORE
THE COMMITTEE ON FINANCE
UNITED STATES SENATE
ON INFORMATION REPORTING OF PAYMENTS BY THIRD
PARTIES TO PROVIDERS OF HEALTH CARE SERVICES

SEPTEMBER 21, 1970, 10:00 A.M.

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

I am pleased to present to the Committee the views of the Treasury Department on the need for additional legislation to require insurance companies and others to file information returns with the Internal Revenue Service with respect to the amount of payments made directly and indirectly to doctors and other health care providers.

During consideration of the Tax Reform Act of 1969, the Committee on Finance adopted an amendment designed to broaden the existing statutory information reporting requirements covering health care payments. This provision, which would have required insurance carriers to file information reports with respect to payments made directly to health care providers as well as to insured individuals, was deleted by the Conference Committee.

Our continuing study of this problem has confirmed our view that more effective information reporting of health care payments is essential. We have also concluded that it can only be accomplished by legislation.

EXISTING LAW

The background of this problem is cogently set forth on pages 145-149 of the report dated February 3, 1970 of the Staff to the Committee on Finance entitled, "Medicare and Medicaid - Problems, Issues and Alternatives." The Internal Revenue Code provides that every person making payments of certain types in the course of his trade or business to another person, amounting to $600 or more in a calendar year, must file an information return showing the amounts paid and the name, address, and identification number of the recipient. However, until late in 1969 the Internal Revenue Service did not apply the information return requirements to payments to doctors, dentists, and other suppliers of health care services.

This matter was reconsidered last year and on November 13, 1969, the Internal Revenue Service announced the issuance of Revenue Ruling 69-595 (1962-2, Cum. Bull. 242). That ruling applied section 6041 of the Internal Revenue Code to insurance companies, including those participating in Medicare, Blue Cross-Blue Shield organizations, state agencies participating in the Medicaid program, and unions and employers having self-insured or self-administered plans. The ruling requires these payers to file the Form 1099 Information Return with respect to payments aggregating $600 or more annually made directly to doctors and other health care providers. Direct payments are sometimes described as "assigned" payments. Under this ruling, no return is required for or with respect to amounts paid as reimbursement of amounts paid or payable to a provider. These payments are known as indirect or "unassigned" payments.

For insurers under the government-sponsored health care programs, the ruling applies to payments made after January 1, 1969, except that in the case of carriers whose accounting systems were not geared to retrieving and reporting information on payments made in 1969, the ruling applied only to payments made on and after January 1, 1970. An additional one-year extension was granted to payers not under Medicare and Medicaid programs, so that the ruling will not be fully effective until January 1, 1971. The prospective application of the ruling was in response to the representation of many insurers that a reporting system could not be installed within a shorter lead time without undue cost. The year's extension was used in part for a study by a joint Internal Revenue Service/Insurance Industry Task Force of the systemic and procedural aspects of information reporting. I am pleased to present the Committee with copies of this Task Force report.

The Staff of the Senate Finance Committee and the Internal Revenue Service have separately concluded that information reporting of health care payments as authorized by present law leaves a good deal to be desired. Chief among the defects, in our judgment, is the absence of a reporting requirement for unassigned payments for health care services.

At present, unassigned payments account for approximately 60 percent of all payments made by commercial carriers, other than Blue Cross and Blue Shield. Aside from this large gap in information reporting, the omission of unassigned payments may lead to massive shifts in billing practices by providers of health care services seeking to avoid the impact of information reporting,including the cost to the payer. Such a shift would increase the information reporting gap. It would also tend to have serious implications for those patients who may be without sufficient financial resources to pay medical costs prior to reimbursement under health insurance. This is, of course, the group for whom health insurance is most necessary and for whom the present trend toward assigned payments is most beneficial.

The Treasury Department recognizes that the 1969 revenue ruling, in its application to assigned payments, has certain deficiencies and inadequacies. These result in part from provisions of existing regulations and in part from lack of statutory authority. For example, reporting is not required of payments to corporations, such as professional service corporations. We believe this problem can be corrected administratively.

The ruling does not impose a reporting requirement upon payees acting as conduits. For example, many clinics or associations of doctors may designate a single individual to receive payments for services by each member of the group. The reporting of large payments to such an agent or nominee without a requirement for a further reporting of his redistribution of the payments makes the information less beneficial to the Internal Revenue Service. Also, the ruling omits a requirement that the payers furnish copies of information returns to the payees, which, of course, is an eminently desirable aspect of information reporting.

Except for extending the reporting requirement to corporations, it is at best uncertain how far the Internal Revenue Service can achieve administrative solutions to these problems. In fact, it has been suggested that there is some question as to the statutory authority for the issuance of this ruling. And, in any event, it is clear that legislation is needed to authorize information reporting with respect to unassigned payments.

Unassigned payments present a somewhat different information reporting problem than assigned payments. Since an assigned payment is paid directly to the health care provider, it is that amount which is useful to the Service. In the case of an unassigned payment, it is not the reimbursement to the insured which is significant but rather it is the separate charges for health care which provide the Service with useful information. Thus, information reporting with respect to unassigned payments requires classification, storage and retrieval of the various charges to the payee by the health care providers.

We are aware of the concern expressed by the insurance industry with respect to the costs of implementing a reporting system with respect to the full amount of unassigned payments. However, prior cost estimates were based on the reporting of all payments to health care providers aggregating $600 or more in a single year. That would require classification,storage and retrieval of data on all such reimbursed charges. The major influence on the cost is the number of items processed.

In an effort to reduce the burden on the payers without materially reducing the value and usefulness of the information furnished, we are proposing a reporting system based on the amount of each statement rendered by a provider included in a claim with respect to which reimbursement is made. For the first two years, separate statements under $100 would not be reported. This amount would drop to $50 for the succeeding two years, after which it would be fixed at a floor of $25. This would mean, for example, that as the insurance carrier analyzed each claim, it would eliminate for reporting purposes during the first two years every separate statment under $100. We believe that this approach which requires the collection and retrieval of significant transactions only rather than all amounts aggregating at least $600, together with the transitional phase-in, will materially reduce the burden on the insurance industry while providing the Service with an important aid to compliance.

Questions have also been raised as to the ability of the Internal Revenue Service to use effectively the information required to be furnished. We fully concur with the view that neither taxpayers nor the Internal Revenue Service should be burdened with returns or documents which serve no useful purpose. However, experience has demonstrated that information reporting can effect an almost miraculous reversal of a serious deficiency in voluntary reporting of income.

The Statistics of Income reveal that, from 1960 to 1963, the number of individual income tax returns reporting interest income increased more than 100 percent, from 10.3 million to 21.4 million, while the dollars of reported interest income increased from $5.1 million to $9.2 million. During this same period the number of returns filed increased less than 3 percent and adjusted gross income about 10 percent. The important event during that period was that the level of information reporting on interest was reduced from $600 to $10 per year. The conclusion which can be drawn is obvious. Information reporting on items of income has a direct and beneficial effect on voluntary reporting for income tax purposes.

That there is a need to improve the level of compliance in the reporting of health care payments is also clear. During the past year, the Internal Revenue Service has processed returns of about 11,000 physicians receiving Medicare and Medicaid payments. Preliminary results indicate a number of instances of substantial, unreported income, including some where the omission exceed $100,000. This confirms other indications of non-compliance on the part of health care practitioners.

The salutory effect on the level of voluntary compliance resulting from commencement of information reporting is too well demonstrated in other areas to require justification. Moreover, the availability of the information itself, even to the limited extent provided by the 1969 revenue ruling alone, will measurably assist in efficient and effective utilization of revenue agent manhours assigned to the audit process. However, for the reasons already stated, reporting should not be limited to the narrow scope of this revenue ruling. Neither should any doubt as to the authority of the Internal Revenue Service to enforce reasonable information reporting requirements be permitted to exist.

If this legislation is enacted, arrangements will be made by the Internal Revenue Service to match data from the information returns against the Individual Master File to detect those providers of health care services who have failed to file an income tax return. The data will also be associated with individual tax returns selected for audit in the regular classification process, which will, as stated, improve the ability of the agent to effect a thorough and speedy audit. In addition, it is anticipated that analysis of the information from the various programs utilizing these documents will lead to the identification of special return selection criteria which will facilitate the selection of high yield returns for audit. These factors together will contribute substantially to the ability of the Internal Revenue Service to maintain its responsibility in the compliance area.

The need for this legislation is clear. An effective information reporting system is probably the strongest available incentive to support the voluntary reporting of income. Where it becomes feasible, as now in the case of health care payments, it should be adopted. Accordingly, I am recommending to the Committee legislation similar to section 944 of H. R. 13270, as reported out by this Committee in 1969 but deleted in Conference, modified as I have indicated.

I would now like to discuss in more detail our specific recommendations.

Recommendations

(1) Authorization

(a) Information reporting by insurance companies, Blue Cross-Blue Shield organizations, Medicare and Medicaid agencies, employers, and unions operating health insurance plans and similar payers with respect to unassigned payments should be authorized:

(i) Reporting should be made annually of the amount of each health care statement in excess of the specified minimum amount with respect to which a payment is made, with all charges by each separate provider reflected by such statements aggregated for the year;

(ii) Reporting should commence with respect to charges reimbursed after December 31, 1971;

(iii) For the years 1972 and 1973, the reporting should exclude all statements less than $100; for the years 1974 and 1975 all statements less than $50; and thereafter all statements less than $25 should be excluded;

(iv) Reporting should not be required with respect to any charge on account of health care services furnished by an instrumentality of the Federal Government or by any state or local government or by any tax-exempt organization;

(v) The $600 floor of existing law should not apply.

(b) Information reporting by the same group of payers of assigned payments should similarly be authorized, with the same exclusions phased-in during the same periods, except that such reporting should be commenced at the $100 level for all assigned payments made on and after January 1, 1971. Each separate payment in excess of the excluded amounts to each payee should be aggregated and reported annually.

(2) Copies of information returns

Copies of information returns should be supplied to each payee in the case of assigned payments. In the case of unassigned payments, each provider of health care services with respect to whom an information return is filed should be furnished a copy of the return.

(3) Nominee reporting

A further reporting requirement should be imposed on each health care provider who receives any payment in excess of the prescribed amounts which such provider is obligated to disburse to one or more other providers.

(4) Separate payments for merchandise

Reporting should not be required with respect to any separate payment (assigned or unassigned) for merchandise or property such as drugs, eye glasses, prosthetic devices, wheel chairs, beds, crutches and the like.

(5) Exclusion of Tort Claims

Payments in settlement of tort claims shall not be subject to information reporting under this provision even though such payments may include amounts referable to the cost of health care services.

The Treasury Department strongly supports the need to clarify and extend the information reporting requirements applicable to health care payments. I appreciate the opportunity to appear before the Committee on this matter. My staff and I will be happy to answer any questions the Committee may have.

epartment of the TREASURY NEWS

GTON, D.C. 20220 TELEPHONE W04-2041

NTION: FINANCIAL EDITOR

RELEASE 6:30 P.M.,

lay, September 21, 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 June 25, 1970 , and other series to be dated September 24, 1970 , which were offered on September 15, 1970, e opened at the Federal Reserve Banks today. Tenders were invited for $1,800,000,000, thereabouts, of 91-day bills and for $1,400,000,000, 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 December 24, 1970			:	182-day Treasury bills maturing March 25, 1971		
	Price	Approx. Equiv. Annual Rate		:	Price	Approx. Equiv. Annual Rate	
High	98.509	5.898%		:	96.868	6.195%	
Low	98.491	5.970%		:	96.836	6.258%	
Average	98.495	5.954%	1/	:	96.845	6.241%	1/

92% of the amount of 91-day bills bid for at the low price was accepted
44% of the amount of 182-day bills bid for at the low price was accepted

AL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

istrict	Applied For	Accepted		:	Applied For	Accepted	
oston	$ 28,395,000	$ 18,385,000		:	$ 29,315,000	$ 18,315,000	
ew York	2,199,685,000	1,269,030,000		:	1,828,195,000	963,435,000	
hiladelphia	46,720,000	21,365,000		:	19,785,000	14,455,000	
leveland	46,470,000	45,350,000		:	24,915,000	21,115,000	
ichmond	32,905,000	32,905,000		:	38,845,000	34,845,000	
tlanta	57,185,000	39,525,000		:	37,755,000	23,955,000	
nicago	242,175,000	180,130,000		:	256,445,000	151,085,000	
t. Louis	47,600,000	38,600,000		:	32,655,000	25,555,000	
inneapolis	32,975,000	23,695,000		:	30,110,000	14,270,000	
ansas City	50,295,000	34,660,000		:	36,090,000	22,125,000	
allas	30,590,000	17,090,000		:	29,565,000	15,765,000	
an Francisco	177,110,000	79,320,000		:	166,020,000	95,160,000	
TOTALS	$2,992,105 ,000	$1,800,055,000	a/		$2,529,695,000	$1,400,080,000	b/

Includes $373,210,000 noncompetitive tenders accepted at the average price of 98.495
Includes $ 203,945,000 noncompetitive tenders accepted at the average price of 96.845
These rates are on a bank discount basis. The equivalent coupon issue yields are .13% for the 91-day bills, and 6.53% for the 182-day bills.

epartment of the TREASURY
TON. D.C. 20220 TELEPHONE W04-2041

NEWS

FOR RELEASE ON DELIVERY

STATEMENT BY JOHN M. HENNESSY, DEPUTY ASSISTANT SECRETARY FOR DEVELOPMENT FINANCE, DEPARTMENT OF THE TREASURY,BEFORE THE FOREIGN OPERATIONS AND GOVERNMENT INFORMATION SUBCOMMITTEE OF THE HOUSE COMMITTEE ON GOVERNMENT OPERATIONS, TUESDAY, SEPTEMBER 22, 1970

Mr. Chairman, I appreciate the opportunity to appear before your Subcommittee this afternoon. I welcome the Committee's interest in the problem of overdue foreign debts. This is a highly complex area involving a long history of complicated international negotiations. I hope my testimony will provide some background to the Subcommittee of the efforts which have been and are being made to improve the collection procedures of delinquent foreign obligations.

Although the Treasury Department's responsibility for collecting foreign debts is limited, the collection of such debts has been of serious concern to the Department. As the agency primarily concerned with the overall financial condition of the United States, and particularly with the status of amounts owed to the Government, we have throughout the years cooperated closely with the agencies responsible for collecting particular categories of debts, including the State Department, which is generally responsible for the international negotiations concerning the delinquent accounts. In addition, the Secretary of the Treasury, as Chairman of the National Advisory Council on International Financial and Monetary Policies, coordinates with the other member agencies attempts at major debt settlements and the extention of new credits to foreign countries against the background of outstanding debts.

Without questioning the seriousness of delinquent foreign obligations, I think it is important to place the problem in proper context. The delinquent accounts represent only a minor portion of the total amount of credits extended by the United States in one form or another to foreign governments since the Second World War. To illustrate this point, as indicated in the Treasury publication "Foreign Credits by the United States Government," foreign credits authorized to be extended by the United States Government to countries and international organizations totalled approximately $39 billion on June 30, 1969. This figure represents authorized loans which have not been fully repaid, have not been cancelled or terminated, and have not expired. Of this sum, $33 billion had been utilized as of that date, of which $6.6 billion in principal had been repaid. In addition, $5.4 billion in interest and commissions had been paid to the United States. Thus, when we discuss principal and interest due and unpaid 90 days or more amounting to slightly less than $295 million as of June 30, 1969, this figure, while substantial, must be seen in relation to the very large amount of principal outstanding on that date -- $33 billion -- and the approximately $12 billion already collected on outstanding foreign loans and credits. Of the total amount lent, delinquencies on principal and interest payments amounted to only approximately one percent.

Furthermore, Mr. Chairman, I think it is important to note that out of forty nations reported as being in delinquent status on December 31, 1969, the largest portion of the delinquency, about $290 million of the $325 million outstanding, is accounted for by only seven countries. Of these seven, the United Arab Republic, Cuba and the Soviet Union are responsible for $170 million, while China, India, Indonesia, and Iran account for another $120 million. Also, a large portion of the debts outstanding, about 62% of the $325 million, are connected with the lend-lease and surplus property disposal programs conducted by the United States Government after World War II. These obligations often involve difficult political and economic considerations. In the case of lend-lease and surplus property, there have been negotiations going back for almost a quarter of a century. The point to be emphasized here, Mr. Chairman, is that while I am sure there is room for improvement in the collection procedures followed by the several responsible agencies, there is no assurance that such improvement would bring about a rapid collection of the largest portion of these debts.

In addition, the arrearages reported in the booklet "Foreign Credits by the United States Government" which has been distributed to the Members of the Committee, brought up to December 1969 in the inserted table, do not necessarily imply default. Some of these short-term arrearages will be cleared up when the next payments are made and will not be outstanding for an appreciable time.

However, the fact that the overdue debts are small in relation to the amounts lent and that the largest part of these delinquencies are due to politically difficult problems, does not call for any relaxation of efforts to collect these debts. Payments not received must not and do not go ignored. First and foremost, in governmental as well as in private creditor-debtor relationships, recognition of the obligation to repay is required. Secondly, careful and individual consideration by each party of the course that is most likely to enhance the proposects for repayment is needed.

It may be helpful, Mr. Chairman, to analyze briefly, at this point, the several categories of overdue debts which are currently outstanding and the efforts which have been made and the difficulties which we are facing in this area of foreign debt collection. Slightly over $200 million of the outstanding amount represents obligations arising from lend-lease pipeline and surplus property sales made shortly after World War II. The largest portion of this total is represented by the lend-lease pipeline which amounted to $141.5 million.

Three countries are responsible for this arrearage. They are the Soviet Union, which owes $82.2 million, China owing $58.6 million and Iran $712,000.

The Soviet lend-lease account represents the value of materials delivered by the United States after V-J Day. In an agreement signed on October 15, 1945, the Soviet Government undertook to pay $222.5 million for these articles. This was to be paid in 22 annual installments at 2-3/8 percent annual interest. While the Soviet Government has been making regular payments on this account, which, as of July 1, 1970, totaled $187 million, it has been deducting certain sums from the payments. The deductions, in part, represent claims by the Soviet Government for alleged damages resulting from the failure of the United States to complete deliveries under the lend-lease agreement. In addition, the Soviets have made deductions unrelated to lend-lease for alleged damages inflicted by Cuban anti-communists on a Soviet ship, for alleged damages resulting from the attachment of Soviet-owned sugar in Puerto Rico, and for damages to commercial Soviet vessels in Haiphong allegedly resulting frǫm U.S. military action. Since the United States has rejected these claims, the deductions by the Soviet Government are listed as an arrearage.

The Chinese lend-lease pipeline credit stems in part from an agreement dated June 14, 1946, which provided for the delivery of nonmilitary equipment and supplies. The agreement, in the amount of $50.3 million, called for 30 years repayment beginning July 1, 1947, with annual interest at the rate of 2-3/8 percent. Since July 1949, China has been in default on this agreement. The second source of the delinquency is a lend-lease "cash account," in the original amount of $27 million, representing a Chinese obligation to pay for certain lend-lease transfers. On this account, China has paid $10.4 million, leaving a balance past due of $20.2 million.

Finally, in the case of Iran, the lend-lease agreement of December 20, 1945, provided for payment in the amount of $8.5 million. Of this amount, Iran has paid $7.8 million, leaving a balance in arrears of $712,000. The shortage represented a claim by Iran which the United States has repeatedly rejected. Although Iran has been requested on several occasions to settle this outstanding obligation, our Government's efforts have not met with any success.

The second largest category of debts, $115 million as of July 31, 1970, represents delinquent obligations due the Export-Import Bank of the United States. Here again, the largest portion of the debt, about $103 million, is represented by the delinquent accounts of only four countries. Cuba owes us $43 million, the United Arab Republic is delinquent in the amount of $17 million, and Indonesia is in default to the extent of $6 million. In addition, China is listed as owing $37 million, concerning which the Eximbank's report for fiscal year 1969 makes the following comment: ". . . by agreement, the Republic of China is not at this time being called upon to make payments on that portion of four loans made to the Republic of China prior to 1947, when the seat of the Government was on the Mainland, which relates to assets no longer under the Government's control." As far as the other three arrearages are concerned, only the Cuban debt appears to be uncollectible in the foreseeable future. The Bank's efforts to obtain payment, including negotiations between Bank officials and the Cuban Government in the early 1960's, have failed to meet with any success. At the present time, since the United States maintains no diplomatic relations with Cuba, the Bank is unable to take further steps in this regard. On the other hand, there have been negotiations with the Egyptian Government during the past two years concerning the rescheduling of delinquent U.A.R. credits, including obligations due the Eximbank. Although agreement has not been reached, the apparent willingness of the Egyptian Government to negotiate a settlement may be regarded as an encouraging sign. Similarly, the Indonesian debt is part of the plan now under consideration to reschedule all outstanding Indonesian credits.

The next category of credits in arrears, which represent obligations stemming from surplus property sales, amounted to approximately $58.6 million on December 31, 1969. Of the several countries responsible for this arrearage, Iran's delinquency, in the amount of $33.3 million, is the largest. Iran's indebtedness arises under four surplus property credit agreements signed between December 12, 1945 and July 29, 1948, pursuant to which Iran utilized credits in the amount of $24.6 million acquiring mainly supplies and equipment of military nature from the United States. Although the United States, beginning January 1, 1949, has submitted bills to the Iranian Government requesting payment for the outstanding obligation, the Iranian Government has made no payment on its delinquent surplus debt since 1951. Efforts on the part of the United States Government, including informal discussions with Iranian officials, to obtain payment on this debt have not been successful so far.

The second largest item in this category is the Korean debt amounting to approximately $8 million. This represents delinquent interest payments under the surplus property agreement of September 11, 1948 between the United States and the Government of South Korea. Except for the annual interest payments received between 1949 and 1953 the debt agreement has remained in default. Recently, negotiations have been undertaken to find a way to reach a settlement of the debt.

Among the countries having delinquent surplus property credits are two Eastern European countries, Czechoslovakia and Hungary. Czechoslovakia owes approximately $5.6 million, while Hungary is in arrears in the amount of $1.7 million. With Czechoslovakia, the United States attempted to negotiate a settlement of this delinquent credit during 1968. However, the negotiations, which covered the whole range of unsettled claims between the two countries, did not result in an agreement. In the case of Hungary, settlement was reached in August 1969, when that Government agreed to a drawdown rate on the surplus property debt which the United States found acceptable. On August 15, 1969, letters were exchanged between the two Governments reflecting the understanding reached.

The Chinese surplus property debt, in the amount of $5.5 million, arises from the so-called "Kiangnan Dockyard" surplus property contract of May 15, 1946. Under this agreement China is obligated to pay $4 million a year in 30 annual installments of 2-3/8 percent yearly interest. However, China has made no payment on this account, although a credit of $122,000 for services by the Kiangnan Dockyard from May 1947 through November 1948 was applied to the account. The settlement of this account, it would appear, awaits the overall settlement of Chinese obligations connected with wartime and post-war United States financial assistance.

The delinquent surplus property debt of the remaining two countries, India and Indonesia, total $4.5 million. These accounts will presumably be settled in conjunction with the rescheduling of the outstanding foreign credits of these countries. It may be of interest to note that the Indian arrearage, which stems from the Mutual Aid Settlement Agreement of May 16, 1946, is payable in Indian rupees.

In addition to delinquencies arising from foreign surplus property sales, there is one outstanding credit representing sale of domestic surplus property. Under an agreement dated October 3, 1947, domestic surplus property was sold to the Republic of Haiti in the amount of $150,500. Approximately $137,000 in principal and interest remains outstanding under this obligation, collection of which has been turned over to State Department and the General Accounting Office by the General Services Administration.

The next item on the list, approximately $23 million, consists of delinquencies arising under the Agricultural Trade Development Act of 1954, as amended, popularly known as Public Law 480. The largest portion of delinquent credits under this heading represents loans to foreign governments and private enterprises which are repayable in foreign currencies. The delinquent loans owed by foreign governments, amounting to approximately $11 million, are almost entirely represented by the United Arab Republic's account of $9 million and the indebtedness by the Syrian Arab Republic of $1.3 million. The defaulted foreign currency loans to private enterprises amounted to $9 million on December 31, 1969. The largest portion of this amount is shared by enterprises located in India ($4.9 million), the Philippines ($1.7 million), and in Paraguay ($1.7 million). Attempts to recover most of these arrearages are being made through the Justiee Department.

In addition, there are outstanding dollar obligations under this program, which represent delinquent payments on long term Public Law 480 dollar credit sales. Of these obligations, which totalled $3.2 million at the end of 1969, the largest amount -- $2.6 million -- is owed by the United Arab Republic. The remaining portion of the debt represents charges for late payment by the debtor countries as well as different fees which have been incurred, such as banking, transportation and transfer fees. In most cases these smaller amounts are outstanding only because they have arisen between two annual billings. Once these items are presented to the debtor country as part of the next annual billing they are paid as a matter of course. For example, while approximately $600,000 (in addition to Egypt's delinquency) was outstanding under Public Law 480 dollar sales on December 31, 1969, by June 30 of this year the whole amount, with the exception of $277, was paid in full.

Finally, under the Foreign Assistance Act and related legislation, there are outstanding, as of December 31, 1969, country loans in the amount of $22 million. The largest delinquency here again is accounted for by the United Arab Republic's default of $14.6 million. This outstanding obligation, together with other Egyptian credits in arrears, have been subject to extended discussions with the Government of the U.A.R. However, as I mentioned earlier, there has been no agreement reached on the rescheduling of Egyptian credits in arrears. The balance of the country loans in default consists mostly of loans to private firms in India ($2.4 million), in Bolivia ($2.3 million) and in the Philippines ($1.3 million). We understand that some of these outstanding loans are being currently litigated by the Justice Department.

The status of the overdue debts which I have summarized for you today are a cause for continuing concern. There are many very difficult cases here which are not susceptible to quick or easy solutions. We are alert to this situation and are anxious that full payment be made by the debtor countries. Where the economic situation of a developing country is the cause of delays in payment, we must seek a just arrangement, in conjunction with others, that will best assure eventual fulfillment of the debtor's obligations. Where the debtor does not indicate a willingness to pay, we must vigorously pursue all reasonable avenues of pressing for prompt settlement. In these efforts, Mr. Chairman, we appreciate the support of this Committee.

Credit Program and Country	Due and Unpaid 90 Days or More			Principal 1/			Interest 1/		
	Total	Due in Dollars	Due in Foreign Currencies	Total	Foreign Government 2/	Private	Total	Foreign Government 2/	Private
Total	325,587,557	301,403,047	24,184,510	241,295,991	207,008,441	34,287,550	84,291,567	59,301,275	24,990,292
By Program									
Under Foreign Assistance (and related) Acts:	22,612,967	20,174,706	2,438,261	17,576,221	12,711,863	4,864,358	5,036,746	3,261,608	1,775,138
Country Loans	21,920,727	19,482,466	2,438,261	16,918,302	12,053,944	4,864,358	5,002,425	3,227,287	1,775,138
Financing Military Sales	692,240	692,240	-	657,919	657,919	-	34,321	34,321	
Under Agricultural Trade									
Development and Assistance Act:	23,068,514	3,188,945	19,879,569	17,382,969	11,504,177	5,878,792	5,685,545	2,601,391	3,084,154
Long-Term Dollar Sales	3,188,945	3,188,945	-	1,980,804	1,980,804	-	1,208,141	1,208,141	-
Currency Loans to Foreign Governments	10,916,623	-	10,916,623	9,523,373	9,523,373	-	1,393,250	1,393,250	-
Currency Loans to Private Enterprise	8,962,946	-	8,962,946	5,878,792	-	5,878,792	3,084,154	-	3,084,154
Under Commodity Credit Corporation Charter Act 3/									
Under Export-Import Bank Act	79,702,700	79,702,700	-	52,519,500	28,975,100	23,544,400	27,183,200	7,052,200	20,131,000
Surplus Property Sales:	58,650,770	56,784,090	1,866,680	35,619,813	35,619,813	-	23,030,958	23,030,958	-
Sales of Overseas Surplus	58,513,886	56,647,206	1,866,680	35,516,774	35,516,774	-	22,997,113	22,997,113	-
Sales of Domestic Surplus	136,884	136,884	-	103,039	103,039	-	33,845	33,845	-
Lend-Lease Pipeline	141,552,606	141,552,606	-	118,197,488	118,197,488	-	23,355,118	23,355,118	-
By Country									
Afghanistan:									
Under Agricultural Trade									
Development and Assistance Act:									
Long-term Dollar Sales	267	267	-	-	-	-	267	267	-
Algeria:									
Under Agricultural Trade									
Development and Assistance Act:									
Long-term Dollar Sales	10	10	-	10	10	-	-	-	-
Argentina:									
Under Export-Import Bank Act	628,700	628,700	-	234,800	-	234,800	393,900	-	393,900
Bolivia:									
Under Foreign Assistance (and									
related) Acts:									
Country Loans	2,293,182	328,332	1,964,850	1,942,394	-	1,942,394	350,788	218,969	131,819
Under Agricultural Trade Development									
Development and Assistance Act:									
Long-term Dollar Sales	48,862	48,862	-	48,826	48,826	-	36	36	-
Brazil:									
Under Foreign Assistance (and									
related) Acts:									
Country Loans	10,784	10,784	-	-		-	10,784	310	10,474
Under Agricultural Trade Development									
and Assistance Act:									
Currency Loans to Foreign Governments	208,832	-	208,832	175,823	175,823	-	33,009	33,009	-
Ceylon:									
Under Agricultural Trade									
Development and Assistance Act:									
Long-term Dollar Sales	644	644	-	-	-	-	644	644	-
Chile:									
Under Export-Import Bank Act	5,700	5,700	-	5,700	-	5,700	-	-	

(In dollars or dollar equivalents)

Credit Program and Country	Due and Unpaid 90 Days or More			Principal 1/			Interest 1/		
	Total	Due in Dollars	Due in Foreign Currencies	Total	Foreign Government 2/	Private	Total	Foreign Government 2/	Private
China:									
Surplus Property Sales:									
Sales of Overseas Surplus	5,504,634	5,504,634	-	2,993,307	2,993,307	-	2,511,327	2,511,327	-
Lend-Lease Pipeline	58,596,596	58,596,596	-	35,241,478	35,241,478	-	23,355,118	23,355,118	-
Colombia:									
Under Foreign Assistance (and related) Acts:									
Country Loans 6/	318,822	318,822	-	-	-	-	318,822	318,822	-
Under Agricultural Trade Development and Assistance Act:									
Currency Loans to Private Enterprise	129,975	-	129,975	106,502	-	106,502	23,473	-	23,473
Congo (Kinshasa):									
Under Agricultural Trade Development and Assistance Act:									
Long-term Dollar Sales	18,308	18,308	-	-	-	-	18,308	18,308	-
Costa Rica:									
Under Foreign Assistance (and related) Acts:									
Country Loans	6,376	6,376	-	-	-	-	6,376	-	6,376
Under Export-Import Bank Act	878,800	878,800	-	725,600	725,600	-	153,200	153,200	-
Cuba:									
Under Export-Import Bank Act	41,024,700	41,024,700	-	21,578,400	-	21,578,400	19,446,300	-	19,446,300
Czechoslovakia:									
Surplus Property Sales:									
Sales of Overseas Surplus	5,591,387	5,591,387	-	3,506,305	3,506,305	-	2,085,082	2,085,082	-
Dominican Republic:									
Under Agricultural Trade Development and Assistance Act:									
Long-term Dollar Sales	533,797	533,797	-	410,435	410,435	-	123,362	123,362	-
Under Export-Import Bank Act	168,900	168,900	-	80,000	80,000	-	88,900	88,900	-
Guinea:									
Under Foreign Assistance (and related) Acts:									
Country Loans	194,901	194,901	-	137,196	137,196	-	57,705	57,705	-
Haiti:									
Under Foreign Assistance (and related) Acts:									
Country Loans	265,006	-	265,006	237,640	-	237,640	27,366	-	27,366
Under Export-Import Bank Act	1,652,500	1,652,500	-	1,652,500	1,652,500	-	-	-	-
Surplus Property Sales:									
Sales of Domestic Surplus	136,884	136,884	-	103,039	103,039	-	33,845	33,845	-
Hungary:									
Surplus Property Sales:									
Sales of Overseas Surplus	1,678,632	1,678,632	-	1,678,632	1,678,632	-	-	-	-
India:									
Under Foreign Assistance (and related) Acts:									
Country Loans	2,369,000	2,369,000	-	2,300,000	-	2,300,000	69,000	-	69,000
Under Agricultural Trade Development and Assistance Act:									
Currency Loans to Private Enterprise	4,899,925	-	4,899,925	3,175,297	-	3,175,297	1,724,628	-	1,724,628
Surplus Property Sales:									
Sales of Overseas Surplus	1,866,680	-	1,866,680	1,866,680	1,866,680	-	-	-	-

(In dollars or dollar equivalents)

Credit Program and Country	Due and Unpaid 90 Days or More			Principal 1/			Interest 1/		
	Total	Due in Dollars	Due in Foreign Currencies	Total	Foreign Government 2/	Private	Total	Foreign Government 2/	Private
Indonesia:									
Under Export-Import Bank Act	12,837,800	12,837,800	-	10,329,500	10,329,500	-	2,508,300	2,508,300	-
Surplus Property Sales:									
Sales of Overseas Surplus	2,583,749	2,583,749	-	2,083,669	2,083,669	-	500,081	500,081	-
Iran:									
Under Agricultural Trade Development and Assistance Act:									
Long-term Dollar Sales	107	107	-	107	107	-	-	-	-
Surplus Property Sales:									
Sales of Overseas Surplus	33,277,931	33,277,931	-	23,388,181	23,388,181	-	9,889,750	9,889,750	-
Lend-Lease Pipeline	711,753	711,753	-	711,753	711,753	-	-	-	-
Israel:									
Under Agricultural Trade Development and Assistance Act:									
Currency Loans to Private Enterprise	5,666	-	5,666	4,461	-	4,461	1,205	-	1,205
Italy:									
Surplus Property Sales:									
Sales of Overseas Surplus	49,866	49,866	-	-	-	-	49,866	49,866	-
Korea:									
Surplus Property Sales:									
Sales of Overseas Surplus	7,961,007	7,961,007	-	-	-	-	7,961,007	7,961,007	-
Liberia:									
Under Foreign Assistance (and related) Acts:									
Country Loans	312,298	312,298	-	158,040	-	158,040	154,258	91,645	62,613
Under Agricultural Trade Development and Assistance Act:									
Long-term Dollar Sales	72	72	-	-	-	-	72	72	
Mali:									
Under Foreign Assistance (and related) Acts:									
Country Loans	1,660	1,660	-	-	-	-	1,660	1,660	-
Under Agricultural Trade Development and Assistance Act:									
Currency Loans to Foreign Governments	813	-	813	-	-	-	813	813	-
Mexico:									
Under Export-Import Bank Act	643,100	643,100	-	605,500	-	605,500	37,600	-	37,600
Nicaragua:									
Under Foreign Assistance (and related) Acts:									
Country Loans 4/	3,025	3,025	-	-	-	-	3,025	3,025	-
Nigeria:									
Under Export-Import Bank Act	1,230,100	1,230,100	-	1,000,000	-	1,000,000	230,100	-	230,100
Pakistan:									
Under Foreign Assistance (and related) Acts:									
Country Loans	13,602	13,602	-	-	-	-	13,602	13,602	-
Under Agricultural Trade Development and Assistance Act:									
Currency Loans to Private Enterprise	701,074	-	701,074	665,819	-	665,819	35,255	-	35,255
Paraguay:									
Under Foreign Assistance (and related) Acts:									
Financing Military Sales	234,140	234,140	-	217,438	217,438	-	16,702	16,702	-
Under Agricultural Trade Development and Assistance Act:									
Long-term Dollar Sales	453	453	-	-	-	-	453	453	-
Currency Loans to Private Enterprise	1,142,527	-	1,142,527	767,439	-	767,439	375,088	-	375,088

Status of Foreign Loans and Other Credits from United States Government Agencies, as of December 31, 1969

[illegible]

Credit Program and Country	Due and Unpaid 90 Days or More			Principal 1/			Interest 1/		
	Total	Due in Dollars	Due in Foreign Currencies	Total	Foreign Government 2/	Private	Total	Foreign Government 2/	Private
Peru:									
Under Agricultural Trade Development and Assistance Act:									
Currency Loans to Private Enterprise	102,083	-	102,083	76,064	-	76,064	26,019	-	26,019
Philippines:									
Under Foreign Assistance (and related) Acts:									
Country Loans	1,261,232	1,261,232	-	-	-	-	1,261,232		1,261,232
Under Agricultural Trade Development and Assistance Act:									
Currency Loans to Private Enterprise	1,651,079	-	1,651,079	864,080	-	864,080	786,999	-	786,999
Somali:									
Under Foreign Assistance (and related) Acts:									
Country Loans	233,127	233,127	-	109,000	-	109,000	124,127	-	124,127
Soviet Union:									
Lend-Lease Pipeline	82,244,257	82,244,257	-	82,244,257	82,244,257	-	-	-	-
Sudan:									
Under Foreign Assistance (and related) Acts:									
Country Loans	4,957	4,957	-	-	-	-	4,957	4,957	-
Under Agricultural Trade Development and Assistance Act:									
Currency Loans to Foreign Governments	477,359	-	477,359	217,316	217,316	-	260,043	260,043	-
Syria:									
Under Foreign Assistance (and related) Acts:									
Country Loans	15,886	14,130	1,756	7,884		7,884	8,002	8,002	-
Under Agricultural Trade Development and Assistance Act:									
Long-term Dollar Sales	40	40	-	23	23	-	17	17	-
Currency Loans to Foreign Governments	1,254,369	-	1,254,369	155,458	155,458	-	1,098,911	1,098,911	-
Tunisia:									
Under Foreign Assistance (and related) Acts:									
Financing Military Sales	458,100	458,100	-	440,481	440,481	-	17,619	17,619	-
Under Agricultural Trade Development and Assistance Act:									
Currency Loans to Private Enterprise	3,143	-	3,143	-	-	-	3,143		3,143
Turkey:									
Under Foreign Assistance (and related) Acts:									
Country Loans	23,160	23,160	-	-	-	-	23,160	13,685	9,475
Under Agricultural Trade Development and Assistance Act:									
Currency Loans to Private Enterprise	327,474	-	327,474	219,130	-	219,130	108,344		108,344
United Arab Republic:									
Under Foreign Assistance (and related) Acts:									
Country Loans	14,593,709	14,387,060	306,649	12,026,148	11,916,748	109,400	2,567,561	2,494,896	72,665
Under Agricultural Trade Development and Assistance Act:									
Long-term Dollar Sales	2,386,385	2,386,385	-	1,321,403	1,321,403	-	1,064,982	1,064,982	
Currency Loans to Foreign Governments	8,975,250	-	8,975,250	8,974,776	8,974,776	-	474	474	
Under Export-Import Bank Act	20,488,900	20,488,900	-	16,187,900	16,187,900	-	4,301,000	4,301,000	
Venezuela:									
Under Export-Import Bank Act	143,100	143,100	-	120,000	-	120,000	23,100		23,100

1/ Does not include amounts charged off as uncollectable as of the date of this report. Does not include amounts rescheduled or deferred according to agreements. In several instances agencies have stopped reporting accruals of interest when credits have gone into default.

2/ Includes amounts whose payment is owed or guaranteed by a foreign government or any agency of a foreign government such as a central bank.

Status of Foreign Loans and Other Credits from United States Government Agencies, as of December 31, 1969

3/ This report includes Commodity Credit Corporation Credits with maturities of more than 12 months and no longer than 36 months, but only credits extended subsequent to April 27, 1967 (under CSM-4 regulations). None of these creditc is in arrears. However, under earlier credits by the Commodity Credit Corporation to public and private obligors principal and interest payments of $81,497,454 are overdue by 90 days or more. These delinquent credits, which occurred under the CSM-3 regulations, are listed below:

	Total Due and Unpaid 90 Days or More		
Country	Total	Principal	Interest
Cyprus	950,607	928,408	22,199
Lebanon	18,207,831	17,606,361	601,470
United Arab Republic	62,339,016	55,104,801	7,234,215

Of this amount $21,757,994 in principal and interest was under the letter of credit issued by the New York Office of Intra Bank, S.A.L., Beirut, Lebanon, which covered shipments to Lebanon, Cyprus, and the U.A.R. The balance of the U.A.R. amount was covered under the letter of credit issued by the National Bank of Egypt.

4/ The Department of the Treasury has been informed that as of January 31, 1970 the amount has been paid.

Note: Collections under the above programs are generally the responsibility of the following agencies:

Under Foreign Assistance (and related) Acts:	
Country Loans	Agency for International Development
Financing of Military Sales	Department of Defense
Under Agricultural Trade Development and Assistance Act:	
Long-term Dollar Sales	Department of Agriculture
Currency Loans to Foreign Governments	Agency f:r International Development
Currency Loans to Private Enterprise	Agency for International Development
Under Commodity Credit Corporation Charter Act	Commodit/ Credit Corporation
Under Export-Import Bank Act:	Export-Import Bank
Surplus Property Sales:	
Sales of Overseas Surplus	Department of the Treasury
Sales of Domestic Surplus	The only outstanding credit (Haiti) in this program was turned over by the General Services Administration to the General Accounting Office and the Department of State for collection.
Lend-Lease Pipeline	Department of the Treasury

For important qualifications affecting this table, see Explanatory Note.

partment of the TREASURY
TON, D.C. 20220 TELEPHONE WO4-2041
NEWS

R IMMEDIATE RELEASE September 22, 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 ,200,000,000, or thereabouts, for cash and in exchange for Treasury lls maturing October 1, 1970, in the amount of $3,107,760,000, follows:

91-day bills (to maturity date) to be issued October 1, 1970, the amount of $1,800,000,000, or thereabouts, representing an ditional amount of bills dated December 31, 1969, and to mature cember 31, 1970, originally issued in the amount of $1,002,063,000 dditional amounts of $500,400,000 and $1,303,120,000 were issued rch 31, 1970, and July 2, 1970, respectively), the additional and iginal bills to be freely interchangeable.

182- day bills, for $1,400,000,000, or thereabouts, to be dated tober 1, 1970, and to mature April 1, 1971 JSIP No.912793 KB1).

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

Tenders will be received at Federal Reserve Banks and Branches up the closing hour, one-thirty p.m., Eastern Daylight Saving ne, Monday, September 28, 1970. Tenders will not be received the Treasury Department, Washington. Each tender must be for a nimum of $10,000. Tenders over $10,000 must be in multiples of ,000. In the case of competitive tenders the price offered must be pressed on the basis of 100, with not more than three decimals, g., 99.925. Fractions may not be used. It is urged that tenders be de on the printed forms and forwarded in the special envelopes which ll be supplied by Federal Reserve Banks or Branches on application erefor.

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 submit tenders except for their own account. Tenders will be 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 **October 1, 1970,** in cash or other immediately available funds or in a like face amount Treasury bills maturing **October 1, 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.

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 considered to accrue when the bills are sold, redeemed or otherwise disposed of, and the bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder must include in his income tax return, as ordinary gain or loss, the difference between the price for the bills, whether on original issue or on subsequent purchase, the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made.

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 any Federal Reserve Bank or Branch.

oOo

partment of the TREASURY NEWS
ON, D.C. 20220 TELEPHONE W04-2041

FOR RELEASE ON DELIVERY

REMARKS BY THOMAS W. WOLFE
DIRECTOR, OFFICE OF DOMESTIC GOLD AND SILVER OPERATIONS
BEFORE THE AMERICAN METAL MARKET SILVER FORUM
NEW YORK HILTON, NEW YORK CITY
WEDNESDAY, SEPTEMBER 23, 1970
2:15 P.M., E.D.T.

When the Treasury halts silver sales through the General Services Administration on next November 10 it will mean the end of the latest - and presumably the last - great cycle of Government intervention in the silver market which began in 1933. I will not here undertake a historical review of this period, but in essence there occurred over a 38-year period an accumulation and monetization of some 3 billion ounces of silver and a subsequent return of that silver, by one means or another, to the control of the private market - the whole process yielding a very substantial profit to the Government.

In a sense this operation could be termed a prolonged price stabilization program for a basic commodity, involving price support and Government stockpiling over a long period when private silver production greatly exceeded industrial needs, and the gradual resale of the commodity as the supply-demand situation eventually turned around. Moreover, during this long period of time, instead of remaining inert and relatively useless as most commodity stockpiles do, a fairly useful purpose was made of the silver as circulating money either directly or in the form of silver certificates. Although, of course, other means would have served this purpose as well.

Eventually, as it became apparent that American industry could finally make effective use of this great stockpile of silver which in earlier years no one had wanted, the silver was gradually returned to the private market from which it came. The over-all effect of this policy - whatever the short-run objectives - was to maintain output of silver in volume when production resources were in excess supply and costs were cheap, with the silver ultimately made available for useful purposes when there was a gap between current supply and demand. This occurred during World War II as well as in the 1960's. It is interesting to note that after GSA sales end on November 10, the Treasury's remaining inventory of silver will be almost exactly what it was on June 30, 1933.

Looking back with a perspective of three decades, the monetization of this accumulation of silver - largely through issuance of silver certificates - was clearly not the logical objective of the program. The principal purpose was to lend support to a hard pressed industry - similar to the support given at the time to the producers of other commodities. The issuance of silver certificates was simply a practical way to finance the stockpile purchases with the side benefit of a little monetary expansion at a time when it was most needed. In principle, silver certificates were not very different from debt instruments issued with any other commodity asset as collateral - such as participation certificates in wheat, for example, or mortgages. The difference between silver certificates and related Federal debt instruments was that silver certificates were issued in very small denominations and were designated and freely circulated as legal tender. The same function is now efficiently served by small denominations of Federal Reserve notes.

By 1960 the Treasury still held in excess of 2 billion ounces of silver. The restoration to the private market of this massive hoard was accomplished through three principal avenues.

First, nearly a billion ounces of silver has been used for coinage since 1960, most of it during the high coinage production years of 1963 through 1965. Virtually none of these coins are now circulating and presumably, the greater part of this amount ultimately will be melted down and consumed.

The second principal means for returning silver to the private market was through sale - by one means or another - at the fixed $1.29 per ounce price. From 1960 until the redemption of silver certificates was halted in June 1968, about 700 million ounces of silver was returned to the private market by this means.

The third, and in my view, most sensible means of disposing of the surplus stock of silver was begun in August 1967 when the GSA began its weekly offerings of silver to be sold through open competitive bids. When this competitive bid sales program ends on November 10, over 300 million ounces of silver will have been sold through competitive bidding at an average price over the period of about $1.85 per ounce. Close to 200 million ounces of this total represented melted dimes and quarters.

All of these various silver disposal procedures have realized a considerable profit to the Government since none of the silver was originally purchased at a price in excess of 90-1/2 cents an ounce. The total profit returned during the 39 months of the GSA sales program alone will total over $160 million.

But, in developing a rational silver disposal program over the past three years, maximizing the Treasury's revenue was certainly not the major concern. The Joint Commission on the Coinage, which has been responsible for establishing the basic policy for silver disposal, early in the game strongly emphasized that a basic objective for the sales program was to facilitate an orderly withdrawal of the Government as a supplier of silver under conditions which would encourage the development of a strong and stable private market. To accomplish this objective, the Treasury adopted a policy of giving full disclosure at frequent intervals of statistics on its remaining stock of silver. To give the market time to develop its own stable institutional structure, the Treasury also affirmed its intent to maintain a regular weekly sale of silver for a period estimated as closely as possible and made known to the public. It was felt that the removal of uncertainty regarding the future of the Government's silver policy would add a stability to the silver market that would be welcomed by both producers and consumers. For example, in the summer of 1968 it was stated that sales would be maintained for at least two more years. In November of 1969 it was stated - I believe before this very forum - that sales would be maintained for about one more year. No significant information on the Treasury's silver stock and intent to maintain open bid sales has, to my knowledge, been held back at any time in the past three years.

Another basic principle in the Treasury's silver disposal policy during the period of private market development has been to keep changes in sales procedures to a minimum. Since the current GSA sales program began in August 1967 there has been no change whatever in the rule of accepting all bids - up to the amount of silver offered - over a cut-off price based on the fair market value of the silver on the day of sale, with, of course, appropriate adjustments for the fineness and location of the silver. Whether the total amount offered is sold to the last ounce or only in part, the procedure for accepting bids has not varied. In fact, the only changes of any consequence in the sales program were made in May 1969 when the weekly amount offered was reduced from 2 to 1-1/2 million ounces and the end-use requirement for GSA silver was eliminated. And it should be noted that the intent to remove the end-use requirement was first announced in July 1967.

So, throughout the three-year GSA sales program there have been no abrupt changes in policy, no surprises, and no shocks to the silver market despite a steady flow of rumors to the contrary, all of which proved groundless.

Consequently, the GSA silver sales program has provided a most useful bridge from the hectic and uncertain period immediately following the end of unlimited Treasury silver sales at the fixed

$1.29 price to the more stable and orderly market conditions that prevail today and that are expected to continue after GSA sales are ended on November 10. Moreover, the GSA sales program provided a convenient means for gradually reducing the market's dependence on the Government as a source of silver supply. This effect is shown by the reduction in the Treasury's silver supply to the market from 189 million ounces in 1967, to 178 million ounces in 1968, 92 million ounces in 1969, and about 65 million ounces in 1970. This "weaning" period during which the supply of Government silver was gradually reduced on a year to year basis gave the silver market an adequate opportunity to make a reasonable adjustment to full dependence upon private sources of supply.

All of this has contributed to the development of a stable and mature silver market in which the price of silver now reflects a rational collective judgment as to the current and prospective supply-demand picture. Silver can now proudly take its place with potatoes, pork bellies, frozen orange juice and other commodities over which the Government exercises no significant price influence.

One matter of some interest on which I might briefly comment concerns the amount of silver in private hands in the form of coins. I will not make any estimate of this total mainly because we don't really know how much it is. Perhaps more accurately we don't know what proportion of the silver coins withdrawn from circulation over the past three years is, as a practical matter, available to the market in the short run, and what proportion might be locked up indefinitely in millions of cookie jars throughout the country. We do know that the Treasury withdrew and melted just over 200 million ounces of perhaps 700 million ounces of silver estimated to be in circulating dimes and quarters in 1967. Perhaps others here can shed some light on the status of the remainder.

Except for the rather unusual circumstances of the period immediately before and after World War II, silver has not, for a very long period of time, been a monetary metal of any consequence in the modern world. But, the old historical concept of silver as a monetary reserve still lingers in the public's mind to a surprising extent. This attitude on occasion leads to some rather curious reactions from some segments of the public to what appear to be rational Government measures. For example, a distinction is often made as to the wisdom of disposing of surplus silver by whatever practical and profitable method may be available compared to selling other surplus stockpile commodities. Oddly enough, there are still those who feel that the nation is somehow stronger if a large hoard of silver is stored away by the Government rather than converted into the industrial and consumer goods that add to the wealth of our economy.

The lingering myth of silver as primarily a monetary metal also tends to affect the public's attitude as to how and why the price of silver changes. Investors who may take a perfectly rational approach to factors which determine the price of copper, lead, zinc or any other commodity are often willing to accept changes in the price of silver as due to mystical forces unrelated to basic supply and demand. But, I think this attitude is fast fading, and silver is, as it should be, accepted as an industrial commodity whose price is subject to the same kinds of factors that influence other commodities.

In the longer run the price of silver will, therefore, depend on a balance between, on the one hand, what consumers are willing to pay for fabricated products containing silver, and, on the other, how much producers are willing and able to expand output at given price levels. This market pricing process must, of course, be considered in the context of changes in general economic conditions and the possible development of substitute materials. All of this is simply a rather elaborate way of saying that it is just as difficult to forecast the price of silver as it is for any other commodity - as no doubt most of you have learned over the past few years. There is no simple cut and dried answer, no short cut to investment profits.

On the whole, the Federal Government's silver policy actions during the hectic decade since 1960 have worked out pretty well. The great 2 billion ounce plus hoard of silver which, if it was still in Treasury hands would make the development of a free silver market almost impossible, has been returned to private ownership where it belongs, except, of course, for an amount deemed adequate for the strategic stockpile. And, perhaps most important of all, there has been developed a strong and viable private market in which the price of silver rationally reflects current and anticipated supply and demand.

At this point it might be of some interest to summarize the over-all effect of the Government's silver actions during the key transition period 1967 through 1969, and try to make some sense out of the apparently conflicting data on the total supply and use of silver.

Taking the demand side first, the industrial use of silver in terms of fabricated products over the three-year period, 1967 - 1969, has been estimated to be about 440 million ounces. The net silver export balance over this period was about 90 million ounces. The increase in inventories of refiners, fabricators and dealers, and on the commodity exchange, has been estimated by the Department of Interior to be roughly 150 million ounces. Most of the inventory growth was due to the start of silver trading on the commodity exchange, and is not likely to be repeated in a similar magnitude in the years ahead. Adding these figures give a total silver demand in the U. S. market over the three-year period of some 680 million ounces.

Taking the supply side we find that the Treasury supplied to the private market during 1967 - 1969 in sales of bullion and silver certificate exchanges about 460 million ounces of silver, and U. S. mining production has been estimated at about 110 million ounces for a total of 570 million ounces. An assumption that all of these figures are reasonably accurate would lead to a conclusion that somewhere around 110 million ounces of silver was recovered from secondary sources over the three-year period, including some private melting of coins.

Although we do not, of course, yet have any definite figures available for 1970, some major components of the silver supply-demand picture can be very roughly estimated. Silver supplied by the Government in 1970 will total about 65 million ounces through November 10. Domestic silver mining production, which has been running strongly this year, should well exceed the 42 million ounce total for 1969. Net silver imports - and we are likely to have an import balance this year - might be perhaps 20 million ounces. Net silver imports in the first half of 1970 alone totaled over 13 million ounces. The total current silver supply in the U. S. market, therefore, apart from secondary sources, should be somewhere around 125 million ounces for all of 1970. The added margin required to meet industrial consumption needs - which should be close to last year's level - plus any inventory increases will come from secondary sources.

For the future, with the Government out of the silver picture, it is clear that if the need for silver by industry is not met by rising domestic production and an increased supply from secondary sources, silver imports will have to fill the gap. But, I, for one, am optimistic that the technical competence and ingenuity of American silver producers and refiners will be able to keep pace with industrial needs. The future trend of silver imports will be the measure of how well they meet this challenge.

0-oo-0-oo-0

epartment of the TREASURY

IGTON, D.C. 20220 TELEPHONE WO4-2041

NEWS

THE DEPARTMENT OF THE TREASURY 1789

FOR IMMEDIATE RELEASE September 22, 1970

WILLIAM C. CATES APPOINTED DEPUTY ASSISTANT SECRETARY FOR INTERNATIONAL AFFAIRS FOR INDUSTRIAL NATIONS FINANCE

Secretary of the Treasury David M. Kennedy today announced the appointment of William C. Cates as Deputy Assistant Secretary for International Affairs for Industrial Nations Finance.

Before joining the Treasury, Mr. Cates, 42, was with the brokerage firm of Laidlaw & Co., New York, where he was Manager of the institutional department.

Currently a resident of Connecticut, Mr. Cates holds a Bachelor of Arts degree from the University of Chicago and degrees of Bachelor of Science in Economics and Master of International Affairs from Columbia University.

Mr. Cates is a past executive vice-president and manager of United International Fund, Ltd., of Toronto, Ontario, Canada. He was formerly associated with F. Eberstadt & Co., New York.

Mr. Cates' appointment follows the announcement last month of a reorganization in the Office of the Assistant Secretary for International Affairs which is designed to increase Treasury's contribution to international economic, financial and trade policies.

As Deputy Assistant Secretary for Industrial Nations Finance, Mr. Cates will be concerned with the United States' financial relations with other industrial nations and with organizations concerned with international financial problems.

Mrs. Cates is the former Inge Stuhl of Berlin, Germany. The Cates' have one daughter, Barbara, 12.

K=491

epartment of the TREASURY NEWS

IGTON, D.C. 20220 TELEPHONE WO4-2041

FOR RELEASE 11:00 A.M.,
CENTRAL EUROPEAN TIME
TUESDAY, SEPTEMBER 22, 1970

REMARKS OF THE HONORABLE DAVID M. KENNEDY
SECRETARY OF THE U. S. TREASURY
AT THE ANNUAL MEETINGS OF THE GOVERNOR OF GOVERNORS
OF THE INTERNATIONAL MONETARY FUND AND THE INTERNATIONAL BANK
FOR RECONSTRUCTION AND DEVELOPMENT
COPENHAGEN, DENMARK
TUESDAY, SEPTEMBER 22, 1970

I want first to express the appreciation of the United States to our Danish hosts for opening this historic city of Copenhagen to our Annual Meetings. Americans have always been conscious of the large contribution of Denmark to our own people and to our national life. We are delighted that these meetings bring us into further contact with your people and your culture.

The year since we last met together has been marked by important accomplishments. Special Drawing Rights have begun to play a useful role among the complex of reserve assets. We look forward to sizeable increases in Fund quotas. The World Bank Group has passed an historic milestone in becoming the largest source of development finance. Its vigor is further reflected in imaginative efforts to bring its funds to bear more directly on pressing development problems. The agreement looking toward replenishment of the resources of the International Development Association at a level of $800 million a year should help to assure the availability of funds to maintain this forward momentum. Progress of our institutions has been accompanied by vigorous growth in trade, a marked reduction in exchange market pressures, and substantial repayments of the short-term and emergency credits accumulated in earlier years. These are substantial achievements. Yet events of the past year have also clearly exposed basic challenges to the financial stability and liberal trading order upon which the success of the Fund and the Bank must ultimately rest.

I.

Inflation is the first of those challenges. In nearly every industrialized country, wage and other income claims are rising faster than capacity to expand real goods and services. As a consequence, the foundations of orderly economic progress are undermined.

I believe our actions have demonstrated the central importance we in the United States have attached to dealing with inflation. We did not shrink from the painful task of applying the tested instruments of firm budgetary control and strong monetary restraints.

I should point out, too, that -- alongside the general program of restraint -- the determined efforts of President Nixon to scale down the Vietnam conflict have set the stage for a decline in defense spending projected at more than $5 billion during the current fiscal year. Manpower and budget resources are being released for more productive use in areas of high social and economic priority. We are thus beginning to reverse a process that contributed so strongly to the build-up of inflationary momentum in the second half of the 1960's.

Eliminating excess demand and braking inflation exacted a cost: by the turn of the year, real economic growth in the United States had been temporarily brought to a standstill. As pressures on the labor market subsided, the unemployment rate this Summer rose to about 5 percent -- considerably higher than would be appropriate over any extended period of time.

However, considerable evidence is also accumulating that the needed adjustments in expectations and actual pricing behavior are under way. The most encouraging sign is that industrial wholesale prices -- normally a good barometer of the pricing environment -- rose at a seasonally adjusted annual rate of barely more than 2-1/2 percent over the Summer, substantially less than the 4 percent rate experienced in 1969. Productivitv growth seems to be resuming, helping manufacturers toabsorb higher labor costs. The rise in consumer prices has also begun to slow.

At the same time, we fully recognize that the inflationary process in the United States, as in the world at large, is not yet under full control. As elsewhere, the response has been slower than experience or theory would have led us to expect. In these circumstances, I believe we could all profit from intensive consideration of recent experience in the Fund and in the Organization for Economic Cooperation and Development or other forums, looking toward both effective and mutually satisfactory solutions.

For our own part, we are determined to maintain cautious and responsible financial policies. We are willing to accept some budgetary deficit this year when the economy is not under demand pressure. We are also willing to see some rebuilding of private liquidity. Our money and capital markets already reflect some easing of tensions, and we now see signs of a resumption of economic growth.

Our progress in guiding the economy toward reasonable price stability, without lapsing into serious recession, is, I believe, a noteworthy achievement. But we are as fully aware of the danger of too fast expansion and renewed overheating as we were of deep recession. We mean to keep government spending below the limits set by our revenue potential at high levels of income and employment. We will not encourage an expansion of money and credit of proportions that could fuel an excessive burst of demand. A steady, rather than precipitous, advance offers the best prospect for combining fuller employment with greater price stability.

II.

The process of internal adjustment has been accompanied by sharp cross currents in our external accounts. Our current account has improved rather substantially. Indeed, helped by a considerable expansion in exports, transactions in non-military goods and services were generating net receipts at an annual rate of nearly $7-1/2 billion during the first half of the year, more than $2-1/2 billion higher than a year ago. On the other hand,continued heavy government expenditures overseas required for security and for aid and other purposes were practically as large as that surplus. At the same time, there was a sharp reversal of the extraordinarily favorable pattern of capital flows in recent years, throwing our over-all accounts into substantial deficit. In the first six months, we recorded a deficit on official settlements of some $4-1/2 billion, an amount slightly exceeding the surplus accumulated over the two previous years.

I believe sizeable short-term swings in our payments position must be anticipated in a world of relatively free markets and volatile capital movements. I believe we have the capacity to handle those swings so long as they take place within the context of a strengthening current surplus. The current recovery in our trade account, while favorably affected by cyclical developments, points in the right direction. But I recognize it can only be a start.

The steady growth in earnings on our foreign investment account -- which nearly tripled in the past decade -- is a long-term element of strength. As interest rates return to more normal levels, we should also be able to look forward to some lightening of the extraordinary burden that interest payments have placed on our position. The phasing down of the Vietnam conflict -- as well as a more equitable sharing of the costs of mutual security in other areas -- could help reduce our foreign exchange outlays for defense. But, fundamentally, our effort must rest on a solid competitive position arising from much better domestic price performance. In that respect, our domestic and balance of payments goals coincide.

III.

The growing friction and concern about trading relations among nations are a third major challenge. In my own country, protectionist sentiments have been increasingly expressed by elements in labor and industry, and restrictive legislation has considerable congressional support.

President Nixon has made clear his commitment to resist these pressures. We mean to preserve and expand the enormous benefits flowing from free and competitive world commerce. In developing measures to meet our own trading problems, we have emphasized measures to support the efforts of our own industry to look outward and compete abroad on a fair and equal basis.

But it is clear that success in maintaining a liberal trading environment can be achieved only by means of a worldwide effort.

Those countries in a strong position, but with markets heavily protected by outmoded quantitative restrictions, should accept a special responsibility to reduce and eliminate import barriers. Agricultural policies that artificially but effectively close markets to more efficient producers urgently require review. Temptations to achieve trading advantage through discriminatory trading arrangements at odds with broader international obligations should be resisted, for they can only be divisive and provoke protectionist reactions elsewhere. The important efforts under way to open markets more freely to the poorer countries, and to free aid from special procurement restrictions, can succeed only as all industrial countries are ready to cooperate fairly and fully. In the best of circumstances, the way ahead will not be smooth and easy. The danger is that we all could be swept into a self-defeating spiral of efforts to defend particular interests. The only answer can be to reassert -- forcefully and widely -- the primacy of our strong mutual interest in freer and multilateral trade.

IV.

In the international financial area, our successes in reducing restrictions and freeing markets have brought a different set of problems. International flows of liquid funds have become enormous. They are highly sensitive to differences in cyclical circumstances and monetary policy in individual countries. As a result, independent national monetary policies must often work within narrow limits. At the same time, we have learned that gradual divergences of trends in costs, prices, and incomes can, over longer periods of time, produce exceedingly difficult problems of balance of payments adjustment.

It is in this context that I welcome the very useful Report of the Executive Directors on the Role of Exchange Rates in the Adjustment of International Payments. That Report, and the discussions that have contributed to it, have done much to clarify and advance our thinking. Indeed, I believe it is fair to say that, while important differences of opinion remain, the report rather clearly points toward an evolving consenus of official thinking in important respects.

The authors wisely emphasize the value of a broad stability in exchange rate relationships and practices. At the same time, the Report seems to me to recognize that there are circumstances in which more flexible techniques and practices, within the general context of the Bretton Woods system, could make a practical and useful contribution to maintaining the basic conditions for free trade and orderly markets. For the present, judgment is suspended as to the desirability or form of a particular amendment to the Articles to define more specifically the range of possible and desirable actions.

These conclusions imply, I believe, a desire to test the possible need for formal amendments against the evolving situation. We will be particularly interested to see whether national and Fund decision-making, within the considerable latitude of the present articles, can and will benefit from the new thinking and new techniques reflected in the Report. The Executive Directors may also want to examine more precisely the forms an amendment might take, should our objectives and experience subsequently make it desirable to move in that direction.

As I indicated a year ago, I do not believe the techniques of limited exchange flexibility can provide any kind of a substitute for effective policies on our part to deal with our inflation and balance of payments. As in the past, the dollar must be strong and stable to play its key role in the monetary system, alongside gold and, now SDR.
I know of no exchange rate mechanism that can change that fundamental need.

V.

President Nixon only last week, in a special message to the Congress, stressed the determination of the United States to respond positively to the challenge of reshaping foreign assistance to meet the needs of the 1970's. As a fundamental part of sweeping changes in the U.S. approach to development finance, he emphasized our commitment to an increasingly multilateral approach -- the approach epitomized by the World Bank Group. We aim to increase substantially our support for the international lending institutions. Our remaining bilateral development assistance will be restructured, with the objective of concentrating more fully on longer-range needs and working more closely with other providers of funds.

I am glad to report that major legislation is already progressing through the Congress that will help flesh out these intentions with fresh commitments of funds to the World Bank, the Inter-American Development Bank and its Fund for Special Operations, and the Asian Development Bank. We plan to submit legislation for IDA replenishment early in the next session.

The new thrust of our own program helps highlight some emerging problems of foreign aid programming. It is commonplace today for a primary donor to be joined by other country donors -- for one institution to work with or through sister or companion institutions -- and for official assistance to take place side by side with private sector participation. These efforts of donor countries must be integrated with the critically important efforts of the developing countries to enlarge their own savings and to employ them effectively. Rising debt burdens among many developing countries need to be appraised, and the implications more consciously considered, before crisis situations disrupt the development process.

These and other elements bearing upon the question of an appropriate level and composition of development lending are further complicated by the long time horizon in generating fresh flows of resources. For instance, the initial planning for the IDA replenishment took place in 1969. The approval process is not likely to be completed much before 1972. The funds will not be fully committed until 1975, and the disbursements will extend into the early 1980's.

In the face of these complexities and the long time perspective, we cannot escape the requirement for longer-range planning. We want to retain the strength that flows from the diversity and flexibility inherent in a variety of aid sources. Nevertheless, we do, it seems to me, need a better framework for setting priorities, for assessing available resources against needs over a period of years, and for dividing responsibilities sensibly.

With its special competence at the center of development finance, the World Bank has properly begun to provide some of the elements essential to a sensible planning process. I refer particularly to its long-range country studies and expanded program for economic missions. I hope the Bank will build on these efforts, collaborating closely, as desirable, with the Fund, the regional financial institutions, United Nations and other development agencies, and individual donor countries. Obviously, planning alone cannot meet the needs of the 1970's. The multilateral institutions must be able to demonstrate their capacity to use sharply augmented funds effectively, and with appropriate balance, if they are to retain the support of sometimes skeptical legislatures. For that reason, I welcome the efforts of the Bank to broaden the scope of its internal auditing activity and to work toward better measurement of achievements against goals.

Our own progress in channeling more aid through the multilateral institutions will be dependent upon willingness of other countries to keep pace, thus appropriately spreading the burden. The broadening contributions to the Special Funds of the Asian Development Bank, the search for a satisfactory mechanism for special contributions for the African Development Bank, and the possibility of added members in the Inter-American Development Bank, all open new opportunities.

I must also emphasize the importance we attach to enlisting the full energies of private citizens -- whether in donor or receiving countries -- in the development process. We look to the International Finance Corporation to play an increasing role. We would also urge an early agreement to proceed with an International Investment Insurance Agency, and I hope that it will have support from both investing countries and developing countries.

Finally, the President has made clear that the United States is ready to participate fully in those important aspects of development policy -- including untying and generalized tariff preferences -- that complement financial aid. I would note particularly his proposal for a U.S. International Development Institute. The Institute would focus precisely on those areas -- including population planning -- where technological breakthrough could potentially contribute enormously to the development process.

VI.

In reviewing the challenges that seem to press in on us so strongly from many directions, I am struck by the interaction among them. The problems of inflation, exchange markets, trade, capital movements, and aid cannot be kept in tight compartments.

The Bank and the Fund were founded on a vision of a free and prosperous community of nations, each sharing fairly in the enormous benefits that flow from multilateral trade, financial stability, and rapid development. That vision of the common good must shine as brightly today, if it is to guide our way through the maze of difficulties before us. My country means to do its part. We mean to do so first of all by restoring a balance in prices, production, and income in our own economy. We propose to provide our fair share of assistance, public and private. We want to pay our way by competing fairly in world markets -- and we expect markets to be open to us.

I believe these are goals that all can share. And, by working together, they can be achieved.

oOo

Department of the TREASURY
NGTON, D.C. 20220 TELEPHONE WO4-2041
NEWS

FOR RELEASE AT 12:00 NOON, EDT
MONDAY, SEPTEMBER 28, 1970

REMARKS OF THE HONORABLE MURRAY L. WEIDENBAUM
ASSISTANT SECRETARY OF THE TREASURY FOR ECONOMIC POLICY
BEFORE THE MORTGAGE BANKERS ASSOCIATION
WASHINGTON, D. C.
SEPTEMBER 28, 1970

THE ECONOMIC OUTLOOK: FAIR AND WARMER

My own reading of the economic indicators leads me to believe that the economy is in the process of turning up. A new buoyancy in the economic environment has emerged. Clearly, earlier fears by some of cumulative declines have been transformed into widespread anticipation of economic growth. However, it is important during this period of transition to keep the inevitable month-to-month fluctuations in perspective.

For the period immediately ahead, each month's statistics may not steadily reflect an upturn. In fact, a short pause or even a temporary downturn for a month or so in some of these statistical series is quite likely and, in some cases, has been occurring. We need to avoid confusing these volatile and temporary fluctuations with changes in the underlying trend.

It is when we examine these underlying trends that we find the basis for the expectations of advancement in the level of economic activity. For example, over the course of recent months, we have witnessed a general expansion in the following key indicators (but not necessarily increases every month): new orders for durable goods, the stock market, the money supply, housing starts, personal income from the private sector, and the composite leading indicators themselves.

Perhaps the major and very real change that we have been witnessing is in the general atmosphere of improved expectations. That, in turn, would tend to reinforce the belief that the indicators could be expected to turn more buoyant later this year..

that score: ignoring inevitable month-to-month fluctuations, the trend in 1970 to date shows a marked dampening in the rate of inflation. My forecast for the coming year is along the same lines: ignoring inevitable month-to-month fluctuations, the outlook is for a further dampening in the rate of inflation. The specific degree of improvement in the price level, of course, will depend in part on the results of decisions in the private sector on wages and other elements of costs and prices.

Given this background of economic developments, the budget situation is a source of considerable attention. It is too early for any definitive statement on the prospects for the fiscal year 1971. There are still actions which can, and should, be taken on both the revenue and expenditure sides which would hold down the likely deficit to reasonable proportions.

The budget rule announced by the President on recent occasions certainly provides a good and clear guide: to keep expenditures within the limits of the revenues that our Federal tax structure provides at full employment. By following this guideline, we would restore budgetary balance when the economy is operating at full potential; also, we would then be avoiding the inflationary potential that would be present if the budget were in deficit at high employment.

To those concerned with the need for fiscal restraint, let me assure you that this enlightened budgetary rule is no "cop out." Upon examination, keeping expenditures within full employment revenues turns out to be a rather rigorous requirement. It will not be easy to attain, especially if new initiatives are to be pursued, let alone the general updrift in costs of existing programs. It is likely to require hard decisions on the expenditure side -- perhaps some program deferrals, reductions, and phase-outs -- in order to accomplish the objective.

Let me indicate some of the upward pressures on the Federal budget. Appropriation bills for the fiscal year 1971 already enacted plus mandatory spending bills already approved (mainly for veterans' benefits, retroactive payments under postal pay reform, and railroad retirement) will add approximately $1.7 billion of outlays to the Federal budget. In addition, the President's recent statement on his proposed Economy Act indicated that $700 million of recommended budget savings have not yet been authorized by the Congress.

So far, there has been no legislative action on a postal rate increase which would bring in an additional $1.4 billion in program receipts for the year, nor has action been taken on the acceleration of estate and gift taxes nor on taxing the lead used in gasoline. Over $3 billion of additional Treasury revenues thus remains in doubt. All this is in addition to appropriation and authorization legislation pending in the Congress which would, if passed in their present form, further increase expenditures over the budget estimates.

Thus, I suggest that a fiscal policy adequate and proper for the transition to a period of renewed growth but lessened inflationary pressures calls for a tighter control over Federal spending. It is desirable and necessary to keep expenditures within the revenues that can be expected when the economy returns to full employment, but to do so will require some hard choices among alternative spending programs -- the ability to say no, or not yet, or not so much.

There is much talk these days about the need to change our priorities. Well, there are two parts to the process. The attractive and much easier part of increasing spending for high priority items has, as would be expected, received the great bulk of the attention. We now need to focus on the second and harder step which is necessary in order to achieve the required shift of resources: identifying those programs of lower priority which can be reduced, postponed, or even eliminated and then taking action to do so. Not until this second step is accomplished will the necessary changes in priorities truly be effected.

It was to this second, and more difficult, activity that the President directed our attention when he identified 57 specific actions which could be taken to reduce unnecessary Federal spending by over $2 billion this year. It is now up to the Congress to follow the President's lead in this drive to reorder priorities while limiting Federal spending to full employment revenue levels.

oOo

partment of the TREASURY NEWS

ON, D.C. 20220 TELEPHONE WO4-2041

ION: FINANCIAL EDITOR

LEASE 6:30 P.M.,
lay, September 24, 1970.

RESULTS OF TREASURY'S MONTHLY BILL OFFERING

he Treasury Department announced that the tenders for two series of Treasury one series to be an additional issue of the bills dated June 30, 1970 , and her series to be dated September 30, 1970 , which were offered on September 17, 1970, pened at the Federal Reserve Banks today. Tenders were invited for $500,000,000, reabouts, of 273-day bills and for $1,200,000,000, or thereabouts, of 365-day The details of the two series are as follows:

OF ACCEPTED TITIVE BIDS:	273 -day Treasury bills maturing June 30, 1971		:	365-day Treasury bills maturing September 30, 1971	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
ligh	95.313 a/	6.181%	:	93.795	6.120%
ow	95.245	6.270%	:	93.638	6.275%
verage	95.270	6.237% 1/	:	93.698	6.216% 1/

a/ Excepting 2 tenders totaling $1,130,000
6% of the amount of 273-day bills bid for at the low price was accepted
0% 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	$ 10,440,000	$ 440,000	:	$ 11,745,000	$ 1,745,000
York	922,820,000	349,820,000	:	1,366,235,000	908,235,000
ladelphia	4,310,000	4,310,000	:	5,190,000	5,190,000
veland	1,005,000	1,005,000	:	5,195,000	5,195,000
hmond	1,180,000	1,180,000	:	4,480,000	4,480,000
anta	13,770,000	6,770,000	:	20,085,000	16,085,000
cago	96,705,000	56,805,000	:	154,910,000	137,910,000
Louis	13,055,000	12,835,000	:	16,240,000	16,240,000
neapolis	12,450,000	11,450,000	:	14,990,000	14,990,000
sas City	6,105,000	5,105,000	:	8,055,000	8,055,000
las	14,715,000	3,275,000	:	15,935,000	8,935,000
Francisco	72,665,000	47,105,000	:	96,540,000	73,540,000
TOTALS	$1,169,220,000	$500,100,000	b/	$1,719,600,000	$1,200,600,000 c/

cludes $26,040,000 noncompetitive tenders accepted at the average price of 95.270
cludes $64,535,000 noncompetitive tenders accepted at the average price of 93.698
ese rates are on a bank discount basis. The equivalent coupon issue yields are 57% for the 273-day bills, and 6.62% for the 365-day bills.

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

FOR RELEASE ON DELIVERY

REMARKS OF BRUCE K. MACLAURY
DEPUTY UNDER SECRETARY OF THE TREASURY
FOR MONETARY AFFAIRS
BEFORE
THE ANNUAL CONVENTION OF
THE NATIONAL COUNCIL OF TEACHER RETIREMENT
HONOLULU, HAWAII
WEDNESDAY, SEPTEMBER 30, 1970
9:30 A.M. (HST)

THE IMPACT OF THE FEDERAL GOVERNMENT ON FINANCIAL MARKETS

Somehow, the world of finance seems far away in this land of swaying palms and pounding surf. But you were good enough to invite me here to discuss the impact of the Federal Government on financial markets, so I shall try to forget these idyllic surroundings for the next few minutes and ask you, too, to focus on the changing relationship between Washington and Wall Street, and the implications of that change for your responsibilities as managers of other people's money.

A few years ago, any discussion of the impact of the federal government on the nation's financial markets could have been confined largely to a recital of the budget outlook, with perhaps a brief aside on debt management operations. Today, the scope of the topic is necessarily much broader. It encompasses not only the behavior of the government's own accounts, but the large and growing activities of government-sponsored agencies and federal credit programs.

I think there are two broad, and to some degree related, explanations for this change -- first, the distortions introduced into the economy, and into the capital markets especially, by the inflationary pressures under which the economy has been operating during the past few years; and second, the tight constraints that have had to be imposed on budget expenditures during this same period.

It is generally acknowledged that the effort to finance the Vietnam war without adequate increases in taxation set off an unfortunate chain of events in the economy that has not even now run its full course. One of the first obvious costs of the decision to try to increase the output of both guns and butter was the credit crunch of 1966, as monetary policy tried to step in where fiscal policy had failed. It is pointless here to rummage through the claims and counterclaims as to who was responsible for what in that episode. But it is relevant that the excessive burden thrust on monetary policy in 1966, and the repetition of the same kinds of stresses last year, have left no doubt as to the kinds of distortions in financial flows that result under such circumstances.

The virtual disappearance of mortgage money in 1966, for example, was fair warning of the consequences that result from a sharp credit squeeze and rapidly rising interest rates. Housing starts plummeted by roughly 50 percent in six months. And only concerted action by the Federal government prevented a repetition, at least to the same degree, of the same sequence of events last year, a point to which I'd like to return in a moment. Another major casualty of excessive reliance on credit restraint, however necessary that restraint may have been from the point of view of slowing inflationary pressures, was the state and local governments that found the market for their tax-exempt bonds drying up as banks found their resources inadequate to meet demands. Needed capital improvements had to be deferred or whittled down, as a total of $4 billion local government issues had to be postponed or cancelled in 1968 and 1969.

One might take the view that this is exactly what monetary restraint is designed to accomplish -- deferred demand for goods and services. But the question, of course, is not whether demands should be shaved, but which demands, and by how much. The consensus, I think, is that housing and local government financing took it on the chin when capital was scarce, and that the federal government had little choice, or indeed had a positive obligation, to do something to offset the social costs of this kind of disproportionate impact.

A second method of reducing the budget cost of credit assistance has been the tendency to shift from full cost grants as the means for providing the federal share of jointly sponsored capital investment programs, to installment payments spread out over time to provide varying proportions of debt service. This shift has put the government, like consumers, increasingly in the business of flying now and paying later.

A third change that has also had a substantial effect in reducing budget outlays without reducing the ability of the government to provide credit assistance has been the change in the status of certain government agencies. A number of agencies that until recently were government-owned, and therefore defined to be in the budget, have now become private, so that their lending operations are no longer considered budget outlays. These include Fanny Mae and two of the Farm Credit agencies.

Finally, although the sale of participations in government loans has come to a halt, there still exists a sizable program for selling off certain loans themselves, with much the same benefit in terms of reduced budget outlays.

Within the growing total of federally-sponsored credit programs, a second kind of change has been taking place that tends to intensify the impact of these programs on financial markets. I am referring to the trend toward guarantees of marketable securities, as distinguished from guarantees of loans that are originated and held by financial institutions.

One obvious example of this development is the initiation of government-guaranteed mortgage backed bonds. Whereas previously, the federal government had put its credit behind those mortgages that qualified under the FHA or VA programs, it is now prepared to guarantee marketable bonds based upon pools of these mortgages in the hopes of attracting investors such as yourselves who might not be prepared to handle mortgages as such.

Similarly, the guaranteed student loan program to which I referred a moment ago has found it difficult to sustain its momentum as the participating banks became loaded up with these long-term, non-marketable assets. To help ease this problem, the Administration has recommended the establishment of a National Student Loan Association, a private corporation, to warehouse, buy, sell, or otherwise deal in these loans. To finance its purchases, the Association would be empowered to issue obligations fully guaranteed as to principal and interest by the federal government, again with the hope of attracting non-bank funds into the program.

Perhaps the broadest measure of the growth in federal credit programs is a set of figures taken from last year's budget document. This showed an increase in federally assisted borrowing of $12-1/2 billion in 1969, $15-1/2 billion in 1970, and over $20 billion in 1971. These numbers are out of date, (though they are the latest available), but they accurately indicate the trend: net borrowing from the public under federally-assisted credit programs was scheduled to rise from something around 12 percent of total funds raised in 1969, to as much as 20 percent in 1971.

Indeed, you may be surprised to learn the extent to which the government has already become involved in certain areas. For example, during the fourth quarter of last year, when mortgage money was particularly scarce, the Federal Government, through the operations of Fanny Mae, and Home Loan Banks, the Farmers Home Administration, and Ginny Mae was providing nearly two-thirds of the funds for housing. And the proportion for fiscal year 1970 as a whole approached fifty percent.

I cite these trends not because there is anything insidious about them per se. On the contrary, against the background of the distortions imposed on the markets by the inflation of the past few years, they fill an obvious need, and probably forestall even more direct interference in the markets by the government. But I think that you, who have a direct stake in the functioning of our capital markets, should be aware that the Federal Government, without itself providing many of the funds directly, is exerting a substantial impact on the allocation of funds in those markets, even though not in the traditional manner. Given the unfortunate pressures to which the markets have been subjected, people were no longer content to let the capital markets allocate funds simply on the basis of ability to pay. Just as in the economy as a whole, we have moved some distance from the theoretical model of Adam Smith, so in the credit markets, circumstances have required that the Federal Government intervene to influence credit flows. Once again, the question is not whether, but when, where, and to what extent.

I think it is worth emphasizing that to date dissatisfaction with the distortions that crept into the capital markets under the strain of inflationary pressures has expressed itself mainly in the form of incentives and assistance provided by Congress to help disadvantaged borrowers, and not, by and large, in disincentives or prohibitions on borrowing by supposedly privileged or less needy borrowers. (I leave out of account here the capital restraint programs on the export of funds for direct investment or by financial institutions as having a very different origin.) But I hardly need tell you that the element of compulsion at times has not been very far below the surface. For example, this past spring a bill was introduced by Congressman Patman that would have required private pension funds such as your own to invest a certain portion of their assets in residential mortgages as a price for maintaining their privileged tax status. Even more ominously, the Congress granted authority to the President last December, as part of a bill extending Regulation Q "to regulate and control any or all extensions of credit." The President specifically stated he had no intention of making use of this authority, but the mood of the Congress was clear.

Thus far, I have concentrated on the growth of Federal credit programs outside the budget. At the same time, I think it's only fair to point out that the Federal Government's own demands on the credit markets have not been excessive. In fact, to step back into history for a moment, I think it is worth noting that public debt in the hands of private investors has actually declined by about $6 billion since 1945. It's quite true that the total of public debt securities outstanding has increased from $260 billion to $364 billion at the end of last year. But during this same period, various government trust funds have absorbed some $65 billion, and the Federal Reserve, to provide for the necessary increase in the money supply, has added $33 billion to its holdings of Government securities.

The relative decline in federal debt is even more dramatic when compared with other economic magnitudes. For example, government debt in private hands was somewhat greater than our total national output in 1945, but by last year, growth in output reduced the relative size to one-third of GNP. Similarly, during this period when total public debt increased less than 40 percent, corporate debt rose more than 6 times, mortgage debt 9 times, and consumer debt 20 times. Though this comparison would be altered to some extent, if federally-sponsored credit programs were included, the popular notion of spiraling federal debt is still a figment of someone's imagination.

It is true that the outlook for the budget during the coming year is rather cloudy. The last official estimate of the deficit, at $1.3 billion, is now nearly five months old and clearly out of date. But I for one do not anticipate any great difficulty in meeting the governments own need for funds in the months ahead. And if anything, the demands on the market by the federally-sponsored agencies should taper off somewhat as private financial institutions move back into position to supply more nearly their traditional share of home financing.

What, then, can be said in summary about the impact of the federal government on the financial markets, and the implications for managers of pension funds?

First, the increased federal involvement in credit markets is largely a legacy of the intense pressures that have been felt in those markets as a result of inflation and the distortions in flows that resulted.

Second, with interest rates declining and inflationary pressures on the wane, the need for increased government involvement should diminish. In particular, the idea of direct allocation, never an attractive alternative, should no longer have any appeal, even to its earlier advocates.

Third, the fact that credit assistance has been provided in ways that minimize the budget costs is a reflection of the strongly competing claims for limited budget dollars in recent years.

Fourth, while there are positive advantages that can derive from the use of private rather than government credit, for example in the student loan program, there is a danger that the government will look to the financial markets as a source of endless funds whenever budget dollars become acutely scarce, and thus intensify the pressures in those markets while complaining about excessively high interest rates.

Fifth, and finally, the proliferation of government-sponsored agencies and guaranteed securities, though in some cases a dubious method for the government to finance its needs, does provide an opportunity for managers of pension funds to obtain highly marketable securities of a quality closely comparable to the governments own direct obligations at yields 1/2 percent above governments, and with longer maturities more suited to their needs.

o0o

partment of the TREASURY

TON, D.C. 20220 TELEPHONE W04-2041

NEWS

FOR RELEASE ON DELIVERY

REMARKS OF THE HONORABLE PAUL A. VOLCKER
UNDER SECRETARY OF THE TREASURY FOR MONETARY AFFAIRS
AT THE ANNUAL MEETING
OF
THE BOSTON STOCK EXCHANGE
AT THE SHERATON BOSTON HOTEL, BOSTON, MASSACHUSETTS
ON MONDAY, SEPTEMBER 28, 1970, at 7:00 P.M.,EDT

I must confess to having spent the past week participating in a particular kind of orgy in Copenhagen -- an orgy of oratory by dozens of the world's finance ministers at the Annual Meetings of the International Monetary Fund and World Bank. There is, I assure you, a group of connoisseurs -- a group to which I, myself, aspire -- that takes considerable delight in listening to that annual outpouring of words and in appraising the significance of the subject matter. But even we recognize that the art form has its limitations for a general audience.

I will not, therefore, attempt to summarize or elaborate the discussion in all its variety -- it ranged from such esoteric technical matters as slightly wider margins for foreign exchange rates to the enormous human challenge of population planning. But I would like to take as my starting point tonight the principal recurring theme of the Meetings -- the debilitating effects of the spread of inflation through the advanced industrialized countries.

I will readily admit that, in a meeting of finance ministers and central bankers, concern with inflation hardly ranks as sensational news. But this year, I suspect the concern was wider and deeper than at any of the twenty-five earlier meetings of the International Monetary Fund.

The reason is simple. Inflation has become a worldwide disease. Even in those countries already enjoying high living standards and accustomed to orderly growth with a high degree of price stability, wage claims and other demands for increased income have substantially exceeded the growth in capacity to expand output.

Among the poorer, developing countries, this same situation has long been endemic. But I was interested in Copenhagen to hear the extent of the concern among representatives of those same countries that their own efforts to achieve stability and promote development are now being undermined by the spread of inflation in the industrialized world.

As you know, the United States has not been exempt from this general pattern. In fact, after a relatively good price record over a period of years, prices began rising steadily and with growing momentum in the latter half of the 1960's, somewhat earlier than in many important European countries. By the time President Nixon took office, inflation plainly represented the major challenge to the economy. Measures to deal with it properly assumed a first priority in the President's economic program.

The need to cool off an economy that had become dangerously overheated -- and to do so without precipitating a serious recession -- has not led to a comfortable term of office for economic policy-makers. Tough decisions and persistence have been the order of the day. But now -- after many long months of waiting -- Secretary Kennedy was able to report to his fellow ministers more hopeful news. Concrete results are beginning to emerge from our efforts.

For instance, the rising trend of wholesale prices of industrial goods -- which are a good barometer of the pricing environment in industry -- tapered off to a rate of little more than 2-1/2 percent per year over the Summer. That is still too high -- but it is far better than the 4 percent rate maintained last year. Consumer prices, heavily weighted with services where price increases tend to be most persistent, have been slower to respond, but they are not exempt from the easing trend. Those prices moved 6 percent higher in 1969; the rate of increase remained close to that figure over the first half of 1970; but, in July and August, the rate dropped to 3.6 percent.

At the same time, rising productivity in industry and reduction in costly overtime hours are now helping to moderate pressures on the cost structure.

It is too early to claim that the battle against inflation has yet been won. Obviously, many wage settlements remain far higher than can be accommodated within a framework of price stability. Nor has the progress toward restoring price stability been made without cost. For a time, the real growth of the economy was brought to a standstill. Unemployment -- although well below levels associated with recession years -- has risen higher than we would like to see it.

Nevertheless, I believe we can fairly claim we are further along the path toward price stability than most other industrial countries. And I also believe that we have laid the ground for further improvement.

The discussions at Copenhagen helped make clear why this past progress -- and our future prospects -- are vitally important to other countries as well. The inflation since the mid-1960's in the United States steadily undermined our trading and competitive position in world markets. Our traditional trade surplus had diminished almost to the vanishing point.

The full implications of this were obscured for a time by the special controls on capital outflows, as well as by the effects of high interest rates and an exuberant investment climate in the United States. Foreign capital poured into both our stock markets and money markets in large volume in 1968 and 1969. This permitted us to balance our over-all international payments position, despite the deteriorating trade position.

But that situation could not last. This year, the foreign capital inflow into our stock market has ceased and short-term money market funds have tended to return abroad. As a result, a large basic deficit in our payments has been exposed. Concern about our balance of payments position is rising once again.

Ironically, that concern is expressed just as evidence is accumulating that the needed process of improvement in our trade and current account has begun. But we also need to recognize that restoring a position of solid strength in that respect will take time -- that we cannot afford serious relapses if we are to protect the strength of the dollar internationally and enable it to perform its key role in the international monetary system.

Inflation is a complex and stubborn process. We need to learn more about how to deal with it effectively. But I believe one overriding lesson stands out from this whole inflationary episode.

The longer action is delayed in coming to grips with inflationary pressures, the greater the distortions introduced into the economy and the more difficult and costly it becomes to restore balance when action is finally taken.

I think there is broad agreement that our recent economic problems began with the acceleration in the war effort in Vietnam in 1965. Large new demands were suddenly imposed on an economy that was already almost fully employed. For too long, there was a refusal to face up to the implications of that decision by cutting spending elsewhere, or by raising taxes, or by some adequate combination of the two. Restrictive monetary policy was asked to carry too much of the burden of restraint and was not up to the task of dealing with inflation almost singlehanded in the face of high budgetary deficits.

The reason that delay was costly is not difficult to understand. There is a momentum to economic activity that can be self-reinforcing. As soon as a certain rate of inflation comes to be expected, it becomes imbedded in the millions of individual decisions on investment, consumption and saving, and wages and interest rates that collectively determine the course of the economy. And the decisions made today on wage contracts, interest rates, and many prices will affect the cost and price environment for some time into the future.

Obviously, once an inflation psychology of this sort begins to permeate the decision-making process, the problem of slowing inflation becomes far more difficult. It is not simply a matter of squeezing out the excess demand that had been the initial source of trouble. The economic environment must be changed for a long enough period of time to change expectations and work through earlier distortions.

This is the reason why we have had to pay the price of three consecutive quarters in which there was -- on balance -- virtually no growth in real output at all. There may still be some who think that this was a price that needn't have been paid -- in the sense that inflationary pressures could have eased without this much pause in economic growth. I would remind them that we were well into the Spring of this year -- after six months of essentially level output -- before decision-makers became generally convinced that the excessive demand pressures that had plagued the economy had at least been brought under control. One piece of evidence -- but not the only one -- is that longer-term interest rates remained at peak levels, reflecting the combined desire of investors for interest rates that included a large "inflation premium" and the willingness of borrowers to commit to those rates for long periods in the future. For a time, there was a kind of economic "credibility gap." The price indexes had not yet reflected much progress, and there was a widespread belief that the pause in economic activity could quickly yield to renewed inflationary exuberance.

The cost of "no growth" can be measured in economic terms -- in the amount of output lost. Or it can be measured in social terms -- in the increase in unemployment that accompanies a pause or slow growth. There is no doubt that control of inflation has exacted these real costs. Nor is there any doubt, in my view, that these costs were higher because inflation was allowed to take root for so long.

Before this audience, I would like to emphasize another aspect of the costs of delayed action -- the costs reflected in distortions in financial markets. No matter to what sector of the financial markets one turns, the cumulative pressures of prolonged restraint left their mark on the institutions involved and the clients they served.

This was perhaps most obvious in the drying up of the cash flow of thrift institutions traditionally oriented toward mortgage markets. Those institutions had been in the habit of borrowing short to lend long, leaving them vulnerable to a violent upward shift in the entire structure of interest rates. Policy loans were also playing hob with the ability of life insurance companies to maintain the flow of commitments that·assure orderly financing in the capital markets.

There is sometimes a tendency to blame official interest rate ceilings for these interrupted flows of funds. In some cases, these may have been a contributing factor, but it is clearly too shallow an explanation. The underlying fact is that the structure of assets and liabilities of many savings institutions is simply not adapted to coping with rapid increases in interest rates. The stresses and strains associated with retention of deposit ceilings would have been compounded by the pressures implicit in competition for funds at rates the institutions could simply not afford to pay, desirable as a competitive freeing of rates may be over the longer run.

Financial institutions were not the only ones to get caught in a liquidity squeeze. All types of borrowers found the pressures mounting, with differing degrees of discomfort and concern. Corporations heavily dependent on short-term debt, with relatively thin margins of equity, were squeezed from two directions -- shrinking profit margins and financing difficulty. In the circumstances, we heard talk of an impending liquidity crisis. We can all cite instances of what, in earlier years, was considered aggressive financial management turning out -- in the harsh light of a credit squeeze -- to have been financial brinksmanship. Even closer to home, so far as this audience is concerned, have been the considerable difficulties of brokerage houses, first asked to cope with a sharply inflated trading volume and then faced with a sharp decline in both stock prices and trading volume.

I mentioned a moment ago that the pressures of prolonged -- necessarily prolonged -- monetary restraint left their mark not only on institutions but on their customers. Two categories of borrowers come quickly to mind: local authorities and those seeking mortgage funds.

You are undoubtedly familiar with the fact that some $4 billion of State and local government issues are estimated to have been postponed or cancelled during the last two years. Dependence on commercial banks as the major source of funds during a period when the banks were under increasing pressure meant that costs rose more rapidly, and availability shrank faster, for local governments than for many other kinds of borrowers not so heavily dependent on a single source of funds. Similarly, though for different reasons, commitments to make mortgage loans dropped off sharply in 1969. Private housing starts fell by some 20 percent between the first and last quarters of the year. Thus, the economic disturbances arising from inflation were not evenly spread, but focussed particularly on two socially important, but financially vulnerable, areas of the economy.

Let me sum up the chain of events as I see them. We started with the fact that inflation had been permitted to gather momentum for at least three years, from 1965 to 1968, before effective action was taken by the Government to deal with it. By that time, it had become imbedded in the decision-making processes of the economy. As a result, it was far more difficult to check than had effective action been initiated earlier. This, in turn, meant that the degree of restraint had to be more prolonged and, in the case of monetary policy in particular, more intense than would have been necessary or desirable had there not been such a late start. Finally, the costs that have been exacted -- in terms of higher unemployment rates, houses not built, a weakened trade position, and financial disturbances -- are greater than should have had to be paid.

There is one more cost in this chain of events that is worth more emphasis than it has received. That cost is the increased Government involvement in the financial affairs of the Nation. That involvement has not been sought, but rather has been thrust upon us in an effort to mitigate the undesirable consequences of prolonged inflationary pressures. This is most evident in the housing field. Federal assistance has reached unprecedented volume in recent years; more than half of all the mortgage credit extended in the past year has been absorbed by such public or quasi-public agencies as FNMA, the Farmers Home Administration, and the Federal Home Loan Banks. As one measure of the pressures for Federal financial assistance to credit markets, total lending by the Federal Government and associated agencies was estimated at some $20 billion in President Nixon's 1971 budget, nearly double the amount two years earlier.

In particular cases, the financial problems of major businesses have raised questions as to the desirability of Federal support in that area -- the controversy surrounding the Penn Central bankruptcy being a leading case in point. The Congress has before it bills that would point toward re-establishment of an RFC-type lending authority for business. Or again closer to home, I am sure you are aware that we are close to passage of legislation that will establish an insurance fund to protect customers of securities brokers or dealers in the event of loss.

In general, this Federal intervention in the flow of credit and capital has so far been limited to a variety of subsidies or other incentives to private lenders, or to the actual provision of credit by an agency for specific purposes. But I am frank to say that the pressures for more direct controls on private institutions were evident on a number of occasions during the past year. For instance, proposals have been pushed in the Congress to require certain institutions to allocate fixed proportions of their funds to mortgages. Legislation actually passed providing the President with sweeping authority to regulate flows of credit by direct controls.

President Nixon has successfully resisted these efforts to push the Government even more deeply into the business of allocating credit. But there is little doubt that such proposals would have been pressed even harder had inflationary pressures not been reduced and permitted restoration of a better balance in financial markets.

In a nutshell, I am convinced that inflationary pressures left unchecked, would have brought vast and irreversible changes in the American economy. The repercussions would have been worldwide.

Fortunately, we are now in the process of turning back that challenge. The process has not been painless. But is is notable it is being accomplished without precipitating the heavy cost of a sharp recession in economic activity.

We are already reaping some of the benefits. Productivity is advancing once again. Tensions have eased in the credit markets, and interest rates have moved substantially below the century-long peaks established in earlier months. We can look forward to renewed growth in economic activity at a moderate, sustainable pace.

These favorable developments can be consistent with further needed progress on the inflation front. Indeed, if we rekindle inflationary forces in an attempt to do too much, too soon, prospects for orderly growth will be undermined.

That was the experience of the second half of the 1960's. We mean to learn from that experience -- not repeat it.

oOo

Department of the TREASURY NEWS

NGTON, D.C. 20220 TELEPHONE W04-2041

:ION: FINANCIAL EDITOR

:LEASE 6:30 P.M.,

r, September 28, 1970

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

:he Treasury Department announced that the tenders for two series of Treasury one series to be an additional issue of the bills dated December 31, 1969 , and :her series to be dated October 1, 1970 , which were offered on September 22, 1970,)pened at the Federal Reserve Banks today. Tenders were invited for $1,800,000,000 :reabouts, of 91-day bills and for $1,400,000,000 or thereabouts, of 182-day The details of the two series are as follows:

OF ACCEPTED :ITIVE BIDS:	91-day Treasury bills maturing December 31, 1970		:	182-day Treasury bills maturing April 1, 1971	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
Iigh	98.553	5.724%	:	96.804 a/	6.322%
,ow	98.511	5.891%	:	96.766	6.397%
Average	98.532	5.807% 1/	:	96.778	6.373% 1/

;/ Excepting 2 tenders totaling $800,000
:1% of the amount of 91-day bills bid for at the low price was accepted
2% 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	$ 28,715,000	$ 18,415,000	:	$ 15,510,000	$ 15,510,000
York	1,806,755,000	1,202,505,000	:	1,810,775,000	922,825,000
.adelphia	41,170,000	26,070,000	:	14,670,000	9,320,000
'eland	40,540,000	40,540,000	:	35,780,000	35,280,000
ımond	25,670,000	23,170,000	:	11,080,000	8,580,000
.nta	47,555,000	40,765,000	:	36,825,000	20,935,000
ago	217,080,000	217,080,000	:	318,735,000	233,735,000
Louis	46,185,000	44,210,000	:	42,245,000	35,165,000
.eapolis	39,710,000	39,710,000	:	25,560,000	20,560,000
as City	35,055,000	34,555,000	:	30,115,000	26,875,000
as	28,910,000	22,910,000	:	27,420,000	14,420,000
Francisco	95,715,000	90,715,000	:	116,415,000	56,975,000
TOTALS	$2,453,060,000	$1,800,645,000	b/	$2,485,130,000	$1,400,180,000 c/

ludes $337,505,000 noncompetitive tenders accepted at the average price of 98.532
ludes $208,630,000 noncompetitive tenders accepted at the average price of 96.778
se rates are on a bank discount basis. The equivalent coupon issue yields are
'8% for the 91-day bills and 6.68% for the 182-day bills.

artment of the TREASURY

IN, D.C. 20220 TELEPHONE W04-2041

NEWS

IMMEDIATE RELEASE September 29, 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 200,000,000, or thereabouts, for cash and in exchange for Treasury ls maturing October 8, 1970, in the amount of $3,105,520,000, follows:

91-day bills (to maturity date) to be issued October 8, 1970, the amount of $1,800,000,000, or thereabouts, representing an litional amount of bills dated July 9, 1970, and to mature uary 7, 1971, originally issued in amount of $1,311,020,000, the additional and original bills to be ely interchangeable.

182- day bills, for $1,400,000,000, or thereabouts, to be dated ober 8, 1970, and to mature April 8, 1971 SIP No. 912793 KC9).

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

Tenders will be received at Federal Reserve Banks and Branches up the closing hour, one-thirty p.m., Eastern Daylight Saving e, Monday, October 5, 1970. Tenders will not be received the Treasury Department, Washington. Each tender must be for a imum of $10,000. Tenders over $10,000 must be in multiples of 000. In the case of competitive tenders the price offered must be ressed on the basis of 100, with not more than three decimals, ., 99.925. Fractions may not be used. It is urged that tenders be le on the printed forms and forwarded in the special envelopes which l be supplied by Federal Reserve Banks or Branches on application refor.

Banking institutions generally may submit tenders for account of stomers 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 recei without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tender from others must be accompanied by payment of 2 percent of the face amount of Treasury bills applied for, unless the tenders are accompanie 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 October 8, 1970, in cash or other immediately available funds or in a like face amount of Treasury bills maturing October 8, 1970. Cash and exchange tender will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

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 considered to accrue when the bills are sold, redeemed or otherwise disposed of, and the bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder must include in his income tax return, as ordinary gain or loss, the difference between the price paid for the 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.

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.

oOo

epartment of the TREASURY

TELEPHONE WO4-2041

NEWS

FOR IMMEDIATE RELEASE SEPTEMBER 30, 1970

RICHARD D. CHOTARD RESIGNS POST AS ASSISTANT TO THE UNDER SECRETARY TO JOIN CONSULTING FIRM

Secretary of the Treasury David M. Kennedy today announced with regret the resignation of Richard D. Chotard, 33, a former Jackson, Mississippi, banker, who has been assistant to Under Secretary of the Treasury Charls E. Walker.

Chotard worked on one-bank holding company legislation, tax reform legislation, and handled Internal Revenue Service and banking projects at Treasury. He is joining an international management consulting, research and development firm, Booz, Allen and Hamilton, November 1, at Chicago.

A native of St. Louis and graduate of Columbus, Mississippi high school, Chotard holds degrees from the University of Mississippi, Jackson School of Law, and Rutgers.

He was vice president of the Deposit Guaranty Bank in Jackson when he joined Treasury in 1969.

oOo

partment of the TREASURY NEWS

ON, D.C. 20220 TELEPHONE WO4-2041

FOR RELEASE ON DELIVERY

REMARKS OF THE HONORABLE DAVID M. KENNEDY
SECRETARY OF THE TREASURY
BEFORE
THE KIWANIS CLUB OF LAS VEGAS, NEVADA
WEDNESDAY, SEPTEMBER 30, 1970, 12:00 NOON, P.D.T.

When this Administration took office some 21 months ago, the Nation was on an inflationary binge. There is no way to disguise that fact. We had gotten into that situation by superimposing war costs of up to 30 billion dollars a year on top of an economy which was already moving rapidly towards full employment, without fully paying for that war. The result facing us was a situation where too much money was chasing too few goods -- a classic case of inflation.

That inflation was the most serious economic problem facing the Nixon Administration. We adopted a program to cool the inflation, and succeeded -- perhaps more slowly than we had wished. But we now know that our policies are working.

Perhaps even more important, these economic policies have been working while the Nation was beginning the transition from a wartime to a peacetime economy.

The adjustments underway in the economy reflect the results of the two domestic economic policy objectives of the Administration:

-- To curb the accelerated rise in prices since mid-1965, by reducing the rate of increase in money demand through fiscal and monetary restraints.

-- To avert any serious contraction in real growth and employment and to assure a revival in the economy by the second half of 1970, while checking the growth of total money expenditures.

In broad outline, if not precisely, the twin policy objectives are being met. Of course, there have been some departures from the expected pattern of developments -- but these were not entirely unexpected. The departures related to the usual difficulties in making exact forecasts, especially the exact span of time lags between policy measures and intended results.

The objective of economic cooloff had been planned by means of traditional policies of monetary and fiscal restraint, and its arrival had been expected during the first half of 1970. On this score, the economic plan of the Administration must be considered successful. The excess of demand, which had generated overheating in the economy and produced the fundamental condition of the inflation, in fact, was eliminated in the expected time frame.

This process was accompanied by difficult adjustments, which, in the past, had been accompanied by cumulative and deep declines in economic activity. Indeed, the risks of a cumulative economic decline were even greater this time because two major forces were exerting downward pressures:

-- cutbacks in defense spending, which were part of a shift in the reordering of Federal expenditure priorities; and

-- the fiscal and monetary restraints imposed to control inflation.

Through the use of appropriate and flexible policies, the successful avoidance of a recession must surely be considered a considerable achievement.

Most measures of general output, income, and employment indicate how small the falloffs from peak rates of activity have been, as compared with other postwar contractions. For example, the index of industrial production has decline less than 2 percent (annual rates) during the adjust of the past eight months; during the first eight months after the Korean War peak, that index declined at an annual rate of 14 percent. Personal income, which declined one percent during the Korean adjustment actually rose by six percent during the past eight months.

The slowdown in economic activity now appears to be "bottoming out." Following a slight decline in the first quarter of 1970, real economic growth (GNP in constant 1958 dollars) in the second quarter increased a bit, and some additional growth is expected in the third quarter.

On the other hand, it is clear that the fallout from the cooling off process generated somewhat higher unemployment and that greater obstacles towards deceleration of price increases emerged than had been anticipated.

The cutbacks in defense ordering and the accelerated release of men from the Armed Forces added substantially to somewhat higher-than-expected unemployment rates. Total defense employment (Department of Defense military and civilian employees) was reduced by 550,000 over the past year. An additional 200,000 cutback resulted from the direct effect on defense plant employment.

The rapidity of the previous inflation had aroused expectations of further large advances. For awhile, private price decisions were so based -- until it became evident that the Administration was determined to carry out its objective to eliminate excess demand. Once this was recognized, prices did continue to rise, but for other reasons than demand-pull inflation. Cost-push influences arose as the prime mover in extending the trend of rising prices.

But even here, substantial progress towards reducing the rates of price advances has been made in recent months. For example, during the past six months, the wholesale price index rose at the annual rate of 1-1/2 percent, a substantial slowdown in the rate of inflation compared to the 5-1/2 percent rate during the preceding half year. The figures for September, released today, show a .4 percent increase. The increase was in the farm and food component which is highly volatile. But this does not affect the conclusion that the trend for the six months is encouraging. The index of raw materials prices declined 13-1/2 percent during the last six months, while it rose by 9 percent a half year earlier.

Furthermore, as labor markets have softened, cost-push influences have been diminishing and may be expected to exert less pressure on prices in the months ahead. Large and sometimes excessive wage settlements with unions have been few and tend to dominate the news. Only 6 percent of the labor force will be affected by new major wage negotiations in 1970.

Actually, by the second quarter of 1970, average compensation per man-hour had declined to an annual rate of 5.6 percent, as compared with 7.7 percent during the fourth quarter of 1969. With productivity beginning to increase in 1970, unit labor costs have tended towards stabilization. By the second quarter of 1970, the rise at an annual rate of 2 percent in the private economy was the lowest for any quarter back to 1962. Accordingly, the basis for a reduction in pressure for price increases has been made. These are the factors -- rising productivity and diminishing unit labor costs -- which already have contributed to the slower rate of price increase which we recently have been experiencing.

We are determined that inflation will not go back to its former wild growth. And it should be apparent to any American that one way to avoid another binge is to avoid spending ourselves back into inflation. The President has already vetoed some highly popular bills because they were inflationary. And I will tell you sincerely that the advice from his economic advisors, including myself, will continue to be: view overspending with deep distrust. We just cannot afford to let inflation take hold again.

The Economic Outlook

While figures on economic activity may not show progress every single month in the period ahead, the economy clearly has moved past a crossover point towards expansion. On the fiscal side, the swing towards deficit in the first half of 1970 -- mainly reflecting a falloff in receipts rather than expansion in expenditures -- has helped to sustain growth in disposable incomes. This has provided support to the economy at an appropriate time.

On the monetary side, interest rates have receded from historic highs, following a changeover from contraction to expansion in the money supply and in other monetary aggregates, such as bank credit and the bank reserve base.

A new buoyancy in the economic environment has emerged. The rise in the stock market and the slowdown in the advance of wholesale and retail prices have contributed to expectations of expansion in the months ahead. Certain developments in the American economy now seem probable for the period ahead.

Consumers may be expected to spend more. Much of the special additions to their income -- more social security benefits, phasing out of the income tax surcharge, and increased Federal pay -- have been reflected in higher saving rates than in spending. This will change as consumer spending patterns adjust to the higher levels of income.

Inventories have not become excessive, as in other slowdowns. As sales improve, production for inventories will add strength to the recovery. Housing starts already have responded to monetary policy, as funds have accumulated at mortgage-granting institutions.

Prospects for a turnaround in business investment appear brighter in view of an upturn expected in new appropriations by manufacturers in the third quarter, as reported to the National Industrial Conference Board. State and local governments will resume strong growth in spending, as lowered bond yields promote what already are heavy flotations.

Some Policy Issues

This Administration believes that reactivation of inflationary pressures can be averted. One prime requisite is the management of fiscal policy, which is not overstimulative; and at the same time to assure that important national needs are met through the Federal Budget. This would protect against sharp swings in monetary policy directed to stabilize the economy.

Hopefully, the recovery of the economy will proceed at such a pace wherein inflationary fires are not rekindled by an abrupt elimination of the gap between potential and actual capacity of the economy to produce. A gradual path in eliminating this gap is the best promise of full employment without inflation. Under these circumstances, the power of productivity gains to offset the effects of wage increases on unit labor costs, over the long run, could operate to reduce upward price pressures.

Finally, removal of structural barriers to the operations of labor markets by eliminating such barriers to entry as racial discrimination, overlong apprenticeships, better matching of skills with unfilled jobs, etc., could expand the supply of labor, increase productivity, and reduce inflationary pressures.

Now having reviewed the economic state of the nation at some length, I would like to briefly discuss our national situation in a slightly broader context. I should like, in a sense, to give you a view of some of the other issues facing the nation as I see it, not just from the Treasury, but from my post as a member of the President's Cabinet.

What are some of the issues? Well, we are for order in our society -- "maintain domestic tranquility" are the noble words in the preamble to the Constitution. I might put that in the context of my job at Treasury -- which supervises the Secret Service, Customs and the Internal Revenue Service with its Alcohol, Tobacco and Firearms control responsibilities.

President Nixon has told me that he is determined to rid this nation of heroin and other narcotics menace, and he has asked the Treasury to support that very important goal.

As a result of added appropriations by the Congress, our Customs force has added some 815 men to hunt heroin. We are fighting smugglers of heroin, and we shall not stop.

In similar fashion, Treasury Agents are playing a key role in the war against skyjackers. And the ATF unit of Internal Revenue is playing a key role in investigating some of the recent tragic bombings.

The Administration is also for progressive change. At Treasury, for example, we have had a team working on ways in which we can support the efforts to meet the crisis of pollution. Some years ago when I visited Las Vegas I felt this was one of the cities of the old West -- with few of the "honking-auto problems" of Chicago or New York. Today you seem able to match some of our Washington rush-hour traffic jams. And those cars are all spewing lead into the atmosphere. We have asked that the Congress pass a tax to help force the lead out of gasoline by the time the new air quality standards come into effect in 1975. We will do more.

In still another area, the President, the Cabinet and I are for certain essential reforms. Our proposal for sharing Federal revenues with the states is an essential part of this program.

To put all this in another way, your government is committed to changing priorities to meet the needs of our society, The fact is that in one essential area we already have changed our priorities. We have accomplished one of our major goals -- which has and is to put more emphasis on human resource programs than on defense.

In 1968 this nation spent 45 percent of its budget on defense and put 32 percent of its resources into human resource areas. In the 1971 fiscal year now underway we are spending 41 percent on human resource programs . . and 37 percent on defense.

In short, in the present Administration we have tried to take some new initiatives. President Nixon recently has referred to part of this process as the "New Federalism" and an effort to bring the government more closely to the people.

Too often in Washington people feel that they have arrived at the only spot that counts, that everything is happening right there. President Nixon believes -- and as a lover of my native Utah and the West -- I agree there is an awful lot more to this country than the space between the Washington Monument and Capitol Hill. I am here, in part, to hear you. And in part, to try to tell you face to face about some of our ideas, and to ask that you support them.

oOo

epartment of the TREASURY

GTON, D.C. 20220 TELEPHONE W04-2041

NEWS

OR IMMEDIATE RELEASE

September 30, 1970

MEMORANDUM FOR THE PRESS:

Attached is a copy of the fifth semi-annual report on U. S. purchases and sales of gold and the state of the U. S. gold stock forwarded by Acting Treasury Secretary Charls E. Walker to the President of the Senate, Speaker of the House and appropriate committee chairmen. The report covers the first half of 1970.

oOo

Attachments

K-495

Semiannual Report on Purchases and Sales of Gold and Other Reserve Assets and the State of the United States Gold Stock January 1 - June 30, 1970

During January through June of 1970 the United States gold ck increased by $30 million to $11,889 million.

The United States reserve position in the International etary Fund - the amount automatically available for drawings reased by $26 million and U.S. holdings of Special Drawing hts by $957 million. The increase in the U.S. reserve ition in the IMF represented the use of dollars by the ernational Monetary Fund in the drawings of others in the roximate amount of $175 million, offset in large part by U.S. drawing of $150 million in Dutch guilders and Belgian ncs previously announced.

The large increase in SDR, which came into being at the set of 1970, was due to the allocation of $867 million to United States as its share of the total allocation and the ance of $90 million represented the net purchases and sales SDR between the U.S. and other countries, plus about $9 million uneration paid by the IMF on the U.S. creditor position in Fund. Gross sales by the U.S. to other countries totaled million and gross purchases amounted to $101 million.

Offsetting the reserve gains in gold, SDR and Fund reserve ition was a decline of $1,649 million in U.S. foreign exchange dings. The bulk of U.S. foreign exchange was held under p arrangements and the decline reflected repayment of these ps, primarily by the United Kingdom and France, the latter which completely repaid its drawings on U.S. facilities.

U. S. Reserve Assets declined during this period by 6 million to $16,328 million, as shown in the following le:

U.S. Reserve Assets
(in millions of dollars)

	December 31, 1969	June 30, 1970	Net Change
Gold	11,859	11,889	+30
Special Drawing Rights		957	+957
Convertible Foreign Currencies	2,781	1,132	-1,649
Reserve Position in International Monetary Fund	2,324	2,350	+26
	16,964	16,328	-636

Purchases and sales of gold during the period are as set forth in the attached table. There were no large transactions during the period. All sales were to countries which had gold payments to make to international institutions, except for a $5 million sale to Argentina to enlarge that country's gold reserves.

Gold traded in the major free markets in a narrow range. In the first quarter it fluctuated between a low of $34.75 per fine ounce - based on London market fixing quotations - and a high of $35.30 in the closing days of the quarter. In the second quarter the price reached a high of $36.24 in early May, the low for the quarter was $35.12 in June.

During the period, primarily in the first quarter when the price was frequently below $35, South Africa sold approximately $307 million in gold to the IMF under the agreement reached in the IMF last December. A small sale was also made by South Africa to Switzerland. Since Switzerland is not an IMF member, its transactions are handled separately but within the basic framework of the understanding with South Africa.

UNITED STATES NET MONETARY GOLD TRANSACTIONS WITH FOREIGN COUNTRIES AND INTERNATIONAL INSTITUTIONS
January 1-June 30, 1970
(In millions of dollars at $35 per fine troy ounce)

Area and Country	First Quarter	Second Quarter	Total
Europe			
Greece	-	-0.3	-0.3
Iceland	-0.1	-0.1	-0.1
Ireland	+2.2	-	+2.2
Malta	+2.5	-	+2.5
Turkey	-0.3	-2.1	-2.4
Vatican City	-	+1.2	+1.2
Total	+4.4	-1.3	+3.1
Latin America			
Argentina	-5.0	-	-5.0
Bolivia	*	-	*
Chile	-0.8	-0.5	-1.3
Colombia	-1.1	-0.1	-1.2
Dominican Republic	-0.1	-0.1	-0.2
El Salvador	-0.1	-0.1	-0.1
Guatemala	-0.1	-0.1	-0.2
Haiti	-	-0.1	-0.1
Peru	-0.1	-0.2	-0.3
Uruguay	-0.1	-8.0	-8.1
Total	-7.3	-9.1	-16.4
Asia			
Afghanistan	-0.2	-0.2	-0.3
Burma	-	*	*
Indonesia	-	-0.8	-0.8
Korea	*	-	*
Kuwait	+24.9	-	+24.9
Pakistan	-0.4	-	-0.4
Philippines	+1.2	-0.4	+0.9
Syria	*	*	-0.1
Yemen Arab Republic	-1.5	-	-1.5
Total	+24.0	-1.4	+22.6
Africa			
Cameroon	-	-0.2	-0.2
Central African Republic	-	-0.1	-0.1
Gabon	-	-0.1	-0.1
Ghana	-	-0.6	-0.6
Guinea	*	*	*
Liberia	-0.1	-	-0.1
Morocco	-0.2	-	-0.2
Sierra Leone	-	*	*
Sudan	-0.4	-0.4	-0.8
Tunisia	*	-0.2	-0.2
United Arab Republic	-	-0.6	-0.6
Total	-0.7	-2.2	-3.0
IMF	+23.7	-	+23.7
TOTAL	+44.0	-14.0	+30.0

*Under $50,000.00.

Figures may not add to totals because of rounding.

partment of the TREASURY
TON, D.C. 20220 TELEPHONE W04-2041

NEWS

THE DEPARTMENT OF THE TREASURY
1789

FOR IMMEDIATE RELEASE October 2, 1970

TREASURY ACTION RESTRICTING IMPORTS OF "MONTEREY" CHEESE FROM NEW ZEALAND

Assistant Secretary of the Treasury Eugene T. Rossides today announced the issuance of a ruling which will change the tariff classification of so-called "Monterey" cheese from New Zealand and have the effect of subjecting importations of this cheese to more restrictive import quota limitations. The ruling will become effective ninety days after it is published in the Customs Bulletin on Wednesday, October 7, 1970.

The new ruling follows determinations by the Food and Drug Administration that the cheese in question being imported from New Zealand is improperly labeled as "Monterey," and must instead be labeled as "Cheddar." The Food and Drug Administration had previously passed importations of this cheese labeled as "Monterey."

The impact of the Treasury ruling will be to reduce the quota limitation on New Zealand "Monterey" cheese from seven and a half million pounds annually to approximately five and a half million pounds annually, the overall quota allocation to New Zealand for Cheddar cheese. The latter figure will now cover imports of both "Monterey" and Cheddar cheese from New Zealand.

A slight increase in duty will also result from the ruling.

oOo

)epartment of the TREASURY

NEWS

IGTON, D.C. 20220 TELEPHONE W04-2041

FOR RELEASE IN AM'S
SUNDAY, OCTOBER 4, 1970

ASSISTANT SECRETARY ROSSIDES LEADS UNITED STATES DELEGATION TO INTERPOL MEETING IN BRUSSEL, BELGIUM

Eugene T. Rossides Assistant Secretary of the Treasury for Enforcement and Operations, left Washington, for Brussels, Belgium today to be chairman of the U.S. delegation at the 1970 General Assembly of the International Criminal Police Organization, (Interpol). The meeting will last from October 5th thru 10th.

The assembly will discuss matters of world wide law enforcement concern such as: illicit drug traffic, organized smuggling, hijacking, as well as routine business.

The purpose of Interpol is to enable police forces in different countries to coordinate their work effectively in the double aim of law enforcement and crime prevention.

The U.S. Interpol National Central Bureau is administered by the Secret Service in Washington.

The other members of the U.S. delegation are:

Mr. Myles Ambrose
Commissioner
Bureau of Customs

Mr. Frank A. Bartimo
Assistant General Counsel
Department of Defense

Mr. Carl W. Belcher
Chief, General Crimes Section
Department of Justice

Mr. Byron Engle
Director, Office of
Public Safety AID
Department of State

Mr. John Finlator
Deputy Director
Bureau of Narcotics &
Dangerous Drugs

Mr. George Gaffney
Special Asst. to the Director
Bureau of Narcotics &
Dangerous Drugs

(OVER)

Mr. Kenneth S. Giannoules
Chief, NCB, Interpol
Department of the Treasury

Mr. William Gottlieb
Internal Revenue Service
Bonn, Germany

Mr. James F. Greene
Associate Commissioner
Immigration & Naturalization Service

Mr. Andrew P. O'Malley
U.S. Secret Service
Paris, France

Mr. Martin R. Pollner
Director, Office of
Law Enforcement
Department of the Treasury

Mr. Harold F. Smith
Assistant Commissioner
Bureau of Customs

Mr. Samuel F. Pryor
Advisor to the Asst. Secretary
Department of the Treasury

# # #

partment of the TREASURY

D.C. 20220 TELEPHONE W04-2041

NEWS

R IMMEDIATE RELEASE October 2, 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 3,200,000,000, or thereabouts, for cash and in exchange for Treasury ills maturing October 15, 1970, in the amount of $3,104,180,000, s follows:

91-day bills (to maturity date) to be issued October 15, 1970, n the amount of $1,800,000,000, or thereabouts, representing an dditional amount of bills dated July 16, 1970, and to mature nuary 14, 1971, originally issued in he amount of $ 1,304,530,000, the additional and original bills to be reely interchangeable.

182- day bills, for $1,400,000,000, or thereabouts, to be dated tober 15, 1970, and to mature April 15, 1971 USIP No. 912793 KD7).

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

Tenders will be received at Federal Reserve Banks and Branches up o the closing hour, one-thirty p.m., Eastern Daylight Saving ime, Friday, October 9, 1970. Tenders will not be received t the Treasury Department, Washington. Each tender must be for a inimum of $10,000. Tenders over $10,000 must be in multiples of 5,000. In the case of competitive tenders the price offered must be xpressed on the basis of 100, with not more than three decimals, .g., 99.925. Fractions may not be used. It is urged that tenders be ade on the printed forms and forwarded in the special envelopes which ill be supplied by Federal Reserve Banks or Branches on application herefor.

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

Immediately after the closing hour, tenders will be opened at Federal Reserve Banks and Branches, following which public announce 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 th Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect sha 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 deci of accepted competitive bids for the respective issues. Settlement accepted tenders in accordance with the bids must be made or complet at the Federal Reserve Bank on **October 15, 1970**, in cash or other immediately available funds or in a like face amoun Treasury bills maturing **October 15, 1970**. Cash and exchange ten will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

Under Sections 454 (b) and 1221 (5) of the Internal Revenue Co of 1954 the amount of discount at which bills issued hereunder are s is considered to accrue when the bills are sold, redeemed or otherwi disposed of, and the bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder must include in his income tax return, as ordinary gain or loss, the difference between the price p for the bills, whether on original issue or on subsequent purchase, the amount actually received either upon sale or redemption at maturi during the taxable year for which the return is made.

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

oOo

partment of the TREASURY
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 MUNICIPAL FINANCE FORUM
WASHINGTON, D. C.
TUESDAY, OCTOBER 6, 1970, 12:00 NOON, EDT

A REEVALUATION OF FEDERAL CREDIT PROGRAMS

I am delighted to have the opportunity to appear before the Municipal Finance Forum to discuss the role of Federal credit programs in governmental budget policy. The current rapid expansion of these Government and Government-assisted lending activities raises a number of broad public policy issues -- the size of the public sector, the role of the government, the structure of financial markets, the effectiveness of monetary and fiscal policies, and the relative importance of large sectors of the Nation -- agriculture, housing, foreign trade, and so forth.

After trying to piece together a picture of recent and prospective developments in the area of Federal credit programs, I would like to discuss several of the major problems stemming from the current treatment of credit activities in the Federal budget. Finally, I will outline some of the major issues and indicate some promising approaches. When I speak of "us," I refer not only to the Administration or to Government; these issues have a bearing on all participants in the economic process. But before launching into these matters, it may be helpful to review some of the basic functions of a financial system. We can then think about the Federal credit programs in terms of their impact on these basic functions.

In any assessment of the implications of Federal credit programs, we need to be concerned with their impact on resource allocation and with their effects on the efficiency of the financial system.

When a national government enters financial markets, it possesses advantages not available to private borrowers such as its position as a virtually riskless borrower. To some extent, as we will see, it can transfer some of these governmental attributes to ostensibly private organizations who are empowered to issue obligations backed or otherwise supported by the U. S. Treasury. Thus, even if the Federal Government itself exercises restraint in its direct borrowing, expanded credit operations by these "assisted" agencies may result in increasing portions of available funds being preempted and not available to truly private borrowers.

Against the background of these remarks, I would like now to turn to a description of the present treatment of Federal credit programs in the budget.

Present Treatment of Credit Programs

As recommended by the Budget Concepts Commission, the Federal budget totals cover only *direct* loans. That is, loans are included in the unified budget *only* when they are made directly by agencies of the Federal Government, including trust funds and mixed ownership corporations.

The budget does not include what are termed Federally-*assisted* loans. For example, loans by agencies which are Federally-sponsored but are entirely privately owned -- such as the Federal National Mortgage Association (FNMA), the Federal Home Loan Banks, and the farm credit agencies -- are no longer included in the budget. Similarly, Federally guaranteed loans -- which include loans financed in the municipal market, e.g., for public housing and urban renewal -- and nonguaranteed loans made by private lenders with a Federal interest subsidy -- such as for college housing and academic facilities -- are *not* included in the unified budget.

As it turns out, this particular accounting convention means that the bulk of Federal credit assistance is excluded from the budget. Of the estimated $22 billion net increase in Federal and Federally-assisted loans for fiscal 1971, only $1-1/2 billion are included in the budget.

The funds for Federally-assisted private credit must come from some place other than the Federal Government. They are borrowed from the public. If the budget forecasts are realized, there will be $20 billion of net borrowing in fiscal 1971 --

well over 20 percent of the funds advanced and borrowed directly in credit markets, and about one-third greater than in fiscal 1970. Moreover, there is every presumption that Federally-assisted credit financed outside the budget will continue to grow rapidly after 1971.

Problems in the Current Treatment of Credit Programs

The fact that a Federal program is big and growing does not by itself mean that it is cause for concern. It may simply reflect the success of the program. It may simply be evidence that the program works. What then is all the fuss about?

It strikes me that the Federally-assisted credit programs pose several important problems that should be faced explicitly. It may be that we would choose to do nothing about these problems. (An old professor of mine once told me that there are two kinds of problems: those about which you can do nothing, and those that go away of their own accord.) Even so, I want to be sure that the problems to which I shall allude are fully recognized and that we do not simply lose ground by default.

At the present time, government control over the growth of Federally-assisted credit programs is quite limited. I am sure that some people would view this state of affairs as desirable, and not a problem. However, in light of the way in which these programs have been developing, I believe that we need to take note of some of the problems that have emerged.

1. A major share of the Federally-assisted loans outstanding in fiscal 1971 will require direct Federal payments of interest or other debt service subsidies. Based on the budget estimates, the increase in directly subsidized loans this fiscal year will amount to $7.8 billion, or more than double the $3.7 billion increase in fiscal 1970. Thus, we are building additional "uncontrollable" items into the Federal budget. As a result, future economic decisions become increasingly less responsive to future needs and strongly limited by decisions based on the needs of the past.

2. A second problem is related to the method of financing. Over $3.6 billion of the estimated net increase in guaranteed loans outstanding in fiscal 1971 will be financed by net sales of loan assets. For the most part, these are loans made

initially by Federal agencies and then sold to private investors as 100 percent guaranteed instruments (e.g., Farmers Home Administration notes, Export-Import Bank certificates of beneficial interest, etc.). All of the additional financing costs are absorbed by the Federal selling agency, and not by the borrower. The Federal agency generally continues to service the loans after they are sold.

What does all this accomplish? The Federal Government has influenced the allocation of resources in the economy, but has done so outside of the discipline of the budget and without reference to the broad economic plan outlined within the budget. Also, in doing this, we have not taken advantage of the most efficient means of financing -- direct Treasury borrowing.

3. Finally, it must be recognized that the very nature of credit assistance is to create advantages for some groups of borrowers and disadvantages for others. Perhaps I should put this thought somewhat differently. A Federal credit assistance program would seem to overcome initial disadvantages of some groups, and thereby place them on a more equal footing with others.

However, as matters have worked out, it seems that these programs not only avoid the discipline of the Federal budget but also escape some of the basic monetary policy restraints. By converting direct loans into securities that are more attractive to many investors, housing and a few other Government programs have been able to hold their positions in a difficult capital market. In particular, they have been able to overcome, to some extent, the restraints imposed upon institutional lenders and others who must rely upon deposit-type savings inflows, especially during periods of financial stringency. As a result, there is a further reduction in credit supplies to those who, by virtue of their limited credit reputation, must rely most heavily upon banks or other intermediaries.

Consider another example: An increasing volume of guaranteed loans is now being made at fixed interest rates to the borrowers, below the market rates charged by the private lenders. Specific activities so financed include academic facilities, college housing, students' tuition, agricultural and other rural facilities, and low and moderate income housing -- all worthy purposes. In each case, a Federal credit agency pays the difference between the fixed rate paid by the borrower (say, 3 percent) and the market rate required by the private investor. During periods when market interest rates increase, the relative advantage to the newly subsidized borrower actually increases. Far from being placed on an equal footing, such borrowers actually are placed at an advantage. The borrower has always had a vested interest in inflation, but for most borrowers that interest emerges after the loan contract has been made. The subsidized borrowers in these cases actually benefit from high interest rates and an inducement to obtain the Federally-assisted financing.

Previously, loans such as those just described were generally included in the budget as direct loans. Accordingly, they came under budget scrutiny. Now, subsidized borrowers tend to be insulated from both monetary and fiscal restraints.

To pull together some key threads, let me make the following points. So long as Federally-assisted loans are excluded from the budget and not otherwise subject to effective controls, there will be the potential for problems arising in five areas:

1. Increased Government involvement in private credit flows, with borrowing techniques that are substantially exempt from the discipline of both the budget and the private market;

2. Higher budget outlays for interest subsidies;

3. Further proliferation in the capital markets of inefficient and, at times, inequitable forms of Federal guaranteed obligations (e.g., asset sales, tax exempt bonds);

4. Higher interest rates than would otherwise be experienced; and

5. Misleading changes in budget estimates.

Possible Changes

What should be done? The complexity and variety of Federal credit programs require that any changes be carefully developed and reviewed within a fairly broad context. First, we should have a clear conception of the nature of the problem. In this connection, I should indicate that the question of Federal credit programs has been receiving and continues to receive a great deal of attention.

Let me offer some ideas which would seem to merit that careful development and review. Hence, the following are suggestions for consideration rather than any firm recommendations.

1. There seems to be a clear need for greater emphasis on Federally-assisted credit programs in the formulation of the Nation's overall budget and economic plans. It is importan that the economic impact of the relevant programs be explicitly considered and acted upon during the budget decision process.

We should satisfy ourselves that these programs are consistent with economic stability and growth as well as with budget priorities. Decisions to give certain groups of borrowers more or better access to credit markets than would otherwise be the case may often require offsetting fiscal or credit policy changes. In other occasions, it may even be necessary to impose controls over the total volume of Federally-assisted programs in order to prevent an undue stimulation to the economy or to some sectors.

2. This leads to my second major proposition. There needs to be an improvement in controls over the total volume of Federally-assisted credit. At present, Federal controls, when exercised, are uneven and subject to considerable time lags. There is no ready-made remedy that is apparent. Moreover, procedures should be established that permit review of commitments far enough in advance to permit an evaluation of their likely impact on the economy at the time the commitments are to be taken down.

3. A related need is for improvements in the review of specific credit program sectors. Each sector should be evaluated in the light of related budget programs in the functional area concerned.

4. Finally, my own thinking has led me to the judgment that, as a matter of longer-range policy, we should minimize the sale of assets as a financing technique and minimize the debt service subsidy as an assistance device. It strikes me that the chief test is whether a program is justified on its merit and in light of program priorities. If so, I am moving toward the belief that, wherever possible, the program should be budgeted explicitly and that the lending should become a part of the normal Treasury financing process.

Of necessity, such changes would compel more stringent cutbacks in some areas, expanded budget outlays in others. In either event, the budget impact would be brought in line with the impact on the use of economic resources and on financial markets. To the extent that additional Treasury borrowing substitutes for Federally-subsidized private borrowing, the long-run budget costs would be reduced. Finally, these programs would be subject to the same budget discipline as other programs, and their growth could be more easily appraised and controlled.

It is important to emphasize the point that Federal credit programs are more than mere financing instruments. Changes in the nature and volume of these programs also become changes in public sector priorities and in the allocation of national resources. Hence, any suggested changes need to be reviewed carefully and in a broad enough framework to take account of these interrelated concerns.

o0o

211

Department of the TREASURY NEWS

SHINGTON, D.C. 20220 TELEPHONE WO4-2041

FOR RELEASE ON DELIVERY

REMARKS OF THE HONORABLE DAVID M. KENNEDY
SECRETARY OF THE TREASURY
BEFORE
THE NATIONAL PRESS CLUB
WASHINGTON, D.C.
TUESDAY, OCTOBER 6, 1970, 12:00 NOON, EDT

I am very pleased to be with you this noon. It is still early in the day -- at least for most of you -- and I welcome this chance to have the first word on the economic situation. I have been in this town long enough to know that some of you will have the last word.

In discussing the current economic situation, it is hard to add much to what has been said or written before. To a considerable extent, that is a tribute to your activities. Economic and financial events have probably never received more thorough press coverage than during the past year or so.

Whether the adjustment turns out to have been a "pause," a "retardation," a "micro-mini recession," or is described by some equally inventive phrase, it surely has not conformed to the pattern usually associated with the term "recession."

I am sure that it must sometimes try the patience of those who actually bear the brunt of economic adjustment to hear that after careful study of the evidence it has been decided that there has been no recession, and anyway things are getting better. Similar pronouncements must sometimes have a hollow ring for the unemployed, for those on fixed incomes trying to cope with inflation, and for the unwary investor. Even a mild slowdown in the economy means loss of job opportunities and some personal hardship. But the alternatives to a mild slowdown would have been much worse.

The control of inflation was neglected for a good many years. This meant that inflation had gained considerable momentum. If this momentum had been allowed to build up still further, the eventual adjustment would undoubtedly have been an extremely severe one. But it would have made little sense to try to halt inflation by deliberately pushing the economy down into recession. Therefore, the effort has been to apply only restraint to push down the rate of inflation, not the entire economy.

The policy of a measured degree of restraint -- applied by fiscal and monetary means -- was definitely the right choice, in my opinion. We have chosen to rely, upon orthodox policies, rather than starting down the road to intensive government intervention in private economic affairs. Important progress has been made in reducing the rate of inflation -- far more progress than we could have made by somehow trying to legislate an end to inflation. Fundamental economic correctives have been applied and they have worked.

Unemployment has risen as was inevitable with a slowdown in economic activity. The employment situation has also been affected temporarily by the beginnings of the welcome move from a wartime to a peacetime economy. While the long-run strength of the economy does not depend upon war-related activities, defense cutbacks can impose some burdens of adjustment in the short run. Some of the rise in regional unemployment rates during the past year is surely attributable to reduced defense orders.

Even so, the decline in economic activity has been very shallow by almost any standard. For example, industrial production fell by 10 percent in the recession of 1948-49, 9 percent in 1953-54, 14 percent in 1957-58, and 6 percent in 1960-61. The decline during the pause in early 1967 was 2-1/2 percent and it has been a little less than 3-1/2 percent this time.

Gross national product in constant prices declined fractionally in the final quarter of last year and by a modest amount in the first quarter of this year. Growth resumed in the second quarter. Incomplete data suggest that real GNP will also show a rise in the quarter just completed. A variety of other comparisons might be drawn, most of which would point to the relative mildness of the current slowdown in what some of my economists are prone to call the "real" sectors.

Some of the strain and turbulence in the financial sectors during the past year seemed real enough to me. There were times when it was possible to wonder whether private financial difficulties could begin to undercut confidence in the general business outlook. Fortunately, this never came to pass. A flexible policy response by the Federal Reserve must be given a great deal of credit for restoring a more settled atmosphere. But we have some lessons to learn from recent financial experience.

In particular, I think we need to recognize the progressive deterioration in financial standards that comes from living too long with inflation. Ordinarily we count on market tests and regulatory processes to maintain the somewhat elusive, but essential, "quality" of credit. However, prolonged exposure to inflation begins to create a different atmosphere, at least on the fringes, where "anything goes." Loose financial standards have been the exception rather than the rule. This is fortunate since widespread financial over-extension could obviously pose a threat to economic stability. Recent difficulties were far from reaching this danger point but there were some early warning signals.

Our financial institutions and arrangements have been built up over the years on the presumption of a reasonable degree of price stability and moderate rates of interest. They function best under those conditions. While financial institutions have weathered the recent adjustment in good fashion, there is a need now for a period during which liquidity can be rebuilt and lending standards upgraded. Meanwhile the President's Commission on Financial Structure and Regulation will be formulating recommendations for any long-range improvement in the structure and regulation of financial institutions that may seem to be required. Our problem here was the failure of the Federal Government to control the inflation that began to accelerate in 1965. The best insurance against any recurrence of financial strain is effective control over inflation.

One stabilizing element of great recent importance has been consumer behavior. While some other borrowers were falling all over themselves to raise funds, almost irrespective of cost, consumers were very cautious in taking on extra debt. As a result, the consumer financial picture is strong and can help to support the expansion now getting underway.

We all welcome the resumption of economic expansion. It must be obvious, however, that costs and prices are still under strong upward pressure. A year ago we were looking for signs of improvement in the price situation. Now, a year later, clear signs of improvement have emerged. Consumer prices have risen more slowly in recent months. Wholesale industrial prices rose at less than a 3 percent annual rate this summer, well below earlier rates.

Increases in industrial productivity can provide some offset to rapidly rising wage costs. But despite improvement in the cost-price situation, there obviously is still some distance to go before one could begin to say that a reasonable degree of price stability had been restored. This counsels against too rapid, forced expansion of the economy. Just as policy was earlier set to guide the economy between the risks of uncontrolled inflation or deep recession, the task now is to set policy so as to avoid stagnation while continuing to make progress toward a reasonable degree of price stability.

There is solid ground for optimism that a suitable pace of expansion can be established. It should be easier for fiscal and monetary policy to promote a gradual and balanced expansion than it was to cool down an overheated economy without causing recession. In the process of promoting expansion it will be important that fiscal and monetary policies are combined in appropriate proportions.

All that I have seen over the past few years leads me to believe that there is an inbuilt tendency for fiscal policy to become too loose. This tendency has been resisted vigorously by this Administration and the Congress has imposed expenditure ceilings. In the fiscal year just completed, Federal expenditures were held about $1 billion below the February estimate. Even so, the actual increase over the preceding fiscal year amounted to about $12 billion.

There is a sense in which the prospective behavior of Federal expenditures over the next year or so outweighs in importance the particular size of the Federal deficit that may emerge. I think we all recognize that transitional budget deficits are unavoidable while revenues are weak and the economy is growing slowly. They need involve no great financing problems in such a setting. But rapid growth in Federal expenditures would amount to an entirely different state of affairs altogether.

Rapid expenditure growth and large deficits would inevitably constrain the monetary authorities in their freedom to expand money and credit and rebuild liquidity While we might be fortunate enough not to return all the way to large budget deficits and very tight money, the risk would surely be there. It would be much better, in my opinion, to make every effort to hold down the rate of growth in Federal expenditures while proceeding with an appropriate rate of monetary expansion. Otherwise we run the risk of being locked into a high structure of interest rates and an unbalanced flow of credit.

A Federal deficit of growing size -- arising primarily because of a rapid rise in Federal expenditures -- could place great strain on credit markets. The point here is not the size of the deficit in terms of total national output, but the size of the deficit in terms of the flow of funds through the credit markets and their absorptive capacity. Forcing too large a financing task on the market means upward pressure on interest rates and diversion of funds away from potential private borrowers.

The President has referred on several recent occasions to a budget rule appropriate to our present circumstances. Total Federal outlays would be held within the revenues generated by a high employment economy. Successful application of such a rule would keep fiscal policy in a stabilizing posture and provide for some budget surplus at high employment. In terms of credit market impact, it would help to insure that Federal financing requirements remain well within the capacity of the markets and thus consistent with a continuation of the long-awaited trend toward lower interest rates that is now underway.

At the recent meeting of the International Monetary Fund and the World Bank, there was considerable discussion as there has been in other international forums -- of the need to control what threatens to become a worldwide tendency toward inflation. Hardly any country is satisfied with its recent price record. Certainly we are not. And, we recognize the special responsibility that we have in view of our size and the importance of the dollar to the international financial system.

But I think in this country we can now look forward to much better price performance and a gradually increasing rate of economic growth. It will be necessary to insure that total demand does not rise too rapidly. Certainly, there will continue to be a need for restraint over Federal expenditures. At least, from my vantage point at the Treasury, the task of domestic economic policy now will be the more welcome one of guiding an expansion rather than enforcing a contraction.

oOo

217

Department of the TREASURY NEWS

SHINGTON, D.C. 20220 TELEPHONE W04-2041

STATEMENT OF THE HONORABLE EDWIN S. COHEN
ASSISTANT SECRETARY OF THE TREASURY FOR TAX POLICY
BEFORE THE COMMITTEE ON FOREIGN RELATIONS OF THE
UNITED STATES SENATE
ON
A PROPOSED ESTATE TAX CONVENTION WITH THE NETHERLANDS
AND ON PROPOSED INCOME TAX CONVENTIONS WITH
TRINIDAD AND TOBAGO, FINLAND, AND BELGIUM
Tuesday, October 6, 1970, 10:30 (EDT)

Mr. Chairman and Members of the Committee:

This is my first appearance before this Committee since taking office and I welcome the opportunity to discuss with you an estate tax treaty which has been signed with the Government of the Netherlands and three income tax treaties which have been signed with the Governments of Trinidad and Tobago, Finland and Belgium.

I believe that income and estate tax treaties are a very important aspect of our tax program. Tax treaties are important in preventing unjustified double taxation of income or estates and thus removing fiscal barriers to international trade and investment. They are also important in providing for an equitable division between countries of revenues from international transactions and for the prevention of tax evasion and avoidance. We are devoting increasing attention to these problems and are seeking solutions through treaties, legislation and administrative action.

The three income tax conventions pending before this Committee bring up to date and would replace existing income tax conventions with Belgium, Finland and Trinidad and Tobago. The fourth pending convention is an estate tax treaty with the Netherlands which is new both in the sense that we do not now have an estate tax treaty with the Netherlands and in the sense that it represents a new approach to dealing with international estate tax problems.

ESTATE TAX TREATY WITH THE NETHERLANDS

The purposes of the proposed estate tax convention with the Netherlands are the same as those of the twelve other estate tax conventions now in force between the United States and other countries;[1/] namely, to minimize the burdens of double taxation at death, to assure an equitable division of revenue between the two Contracting States and to prevent fiscal evasion with respect to taxes on estates and inheritances.

[1/] Australia, Canada, Finland, France, Greece, Ireland, Italy, Japan, Norway, the Republic of South Africa, Switzerland, and the United Kingdom.

In accomplishing these purposes, the convention departs from the pattern of our existing estate tax conventions in order --

(a) to take into account problems which employees of international businesses assigned to foreign countries have encountered under previous conventions;

(b) to follow the direction indicated by the U. S. Foreign Investors Tax Act of 1966 (FITA) in assisting out balance of payments by minimizing deterrents to foreign portfolio investment in the United States; and

(c) to conform to the extent practicable with the provisions of the Draft Double Taxation Convention on Estates and Inheritances published in 1966 by the Organization for Economic Cooperation and Development (OECD).

As background, it would be useful if I briefly outlined the United States and Dutch tax systems to indicate the problems which the treaty attempts to solve.

The United States imposes an estate tax which is applied to the estates of decedents who are citizens or residents of the United States and to the estates of other decedents who left property located in the United States. In the case of citizens and residents of the United States, the gross estate which is subject to the estate tax includes worldwide assets. In our Internal Revenue Code double taxation is avoided (assuming the estate of the decedent is not subject to taxation by another country on a worldwide basis) by our allowing a credit for foreign estate or inheritance taxes against that part of the U. S. estate tax which is attributable to property located in a foreign country.

In the case of decedents who were neither U. S. citizens nor residents, only the property with a U. S. situs is included in the gross estate and there is a $30,000 specific exemption which makes our estate tax applicable only to U. S. property in excess of that amount.

An alien in the United States acquires residence for purposes of the estate tax if he is physically present in the United States and has an intention to remain indefinitely. This is really a "domicile" test, but the term "resident" is used in our Internal Revenue Code. The term "domicile" is used in the proposed convention and hereafter in this statement.

The Netherlands imposes a Succession Duty on all property in the estates of domiciliaries, regardless of where the property is located. The Netherlands also levies a transfer tax at death which is, in general, applicable to transfers by non-residents of real property and unincorporated business assets located in the Netherlands.

It should be noted that it is easier for an alien in the Netherlands to acquire domicile[1] for purposes of its Succession Duty than for an alien in the United States to acquire domicile for purposes of the estate tax. While the United States requires both physical presence and an intention to remain here indefinitely, Dutch domicile is equated only with the location of one's principal abode. A rented house or apartment in which an individual lived in the Netherlands with his wife and children would generally be considered to be his principal abode.

The Netherlands law only partially eliminates double taxation in cases where a resident of the Netherlands had property in foreign countries subject to estate or inheritance tax there, since with respect to some types of

[1] This is a translation of the Dutch word "woomplats" which apparently can be translated either as "domicile" or "residence".

property, including investments in marketable securities, the Netherlands normally allows the foreign tax only as a deduction in computing the net amount subject to Dutch tax rather than allowing a credit for the foreign tax against the amount of Dutch tax.[1/]

Thus, under Dutch law, a U. S. citizen who dies in the Netherlands and who rented or purchased a house or apartment is likely to be treated as a domiciliary for Dutch estate tax purposes. All of his assets would therefore be subject to the Dutch Succession Duty. Since he is a U. S. citizen all of his assets would also be subject to the Federal estate tax. The U. S. would give a credit (subject to the statutory limitations) for the Dutch taxes on assets our law considers to be located in the Netherlands, but this may be of limited benefit because under our law most of his assets may be regarded as being located in the

[1/] The difference between a deduction and credit can be illustrated by assuming that States A and B both impose a 50 percent tax on the same assets with a value of $100,000. If State B allows a credit for the tax of State A the net effect is that the tax of $50,000 is paid to State A; no tax is paid to State B. On the other hand, if State B allows a deduction for the tax, State B imposes a tax of $25,000 by applying its 50 percent rate to the assets net of the tax imposed by State A. The result is a total tax liability of 75 percent rather than of 50 percent as individually imposed by both States A and B.

U. S or third countries. Moreover, the Netherlands would, for most types of property, only permit a deduction for the U. S. tax. If, for example, such a decedent left an estate of $250,000, consisting primarily of stocks and obligations issued by U. S. corporations, and bequeathed all of it to his wife, the U. S. tax would be $10,900 and the Dutch tax would be $23,930. The combined tax liability of $34,830 exceeds the tax either country would impose by itself -- $10,900 in the case of the United States and $25,612 in the case of the Netherlands.

similar situation arises where a Dutch citizen and resident invests in U. S. securities the value of which exceeds 30,000 at his death. Again, the U. S. tax would only be partially offset by the deduction allowed under Dutch law.

Our older treaties contained comprehensive situs rules and typically eliminated double taxation by giving the primary right to tax a given type of property to the country of situs The country of citizenship or domicile had the residual right to tax and then, if a tax was levied, a credit was given for the situs country's tax on property situated within its borders. In certain cases, as where property is situated in a third country, each treaty country gives a partial credit for the tax imposed by the other.

While existing treaties have more or less eliminated double taxation, they have not eliminated the compliance problems of a decedent's survivors, since the basic estate tax laws of both countries have continued to apply. As a consequence of the differing domicile laws a decedent may be considered to have been domiciled in both signatory countries and the problems associated with filing estate tax returns in two countries, such as complying with the valuation procedures of both countries, continue unabated. This has been a source of difficulty and concern to the families of businessmen who die abroad.

The proposed Dutch treaty deals with these problems of double taxation and compliance in the following ways:

1. Elimination of dual domicile -- Seven-out-of-ten-year rule. The treaty eliminates all cases of dual domicile by providing a series of tests under which the decedent is treated as being domiciled in only one of the treaty countries. The most important of these tests, which unlike

the others is not based on the OECD model, is the seven-out-of-ten year domiciliary rule. This rule is one of the principal innovations of this convention. Under this rule a decedent who is considered by each country as having been domiciled therein at death will generally be deemed to have been domiciled only in the country of which he was a citizen if he had been resident in the other country for less than seven years in the ten-year period ending at his death and did not have the intent to remain there indefinitely.

This provision is largely designed to deal with the problem of estates of employees of multinational corporations who are sent abroad for a limited tour of duty. Under the proposed convention, an employee of a U. S. corporation or its Dutch subsidiary stationed in the Netherlands for less than seven years, without indicating an intent to remain in the Netherlands indefinitely, would not be treated as a domiciliary of the Netherlands for purposes of its inheritance tax. Dutch tax would not apply except to real estate or unincorporated business property located in the Netherlands. Thus, there would be no Dutch tax unless the value of such Dutch property exceeded the exemption provided elsewhere in the treaty. On a reciprocal basis, the same rules would be applicable to a Dutch citizen temporarily in the United States. The seven-year domiciliary rule applies to persons in the other country for professional, educational, training, tourism, or a similar purpose (or in his capacity as the spouse or a dependent member of the family of a person who is in the other country for such a purpose).

2. *Credit where both countries tax on a worldwide basis*. The provisions determining a single domicile will generally result in only one State taxing on a worldwide basis. However, both will still tax on a worldwide basis when a U. S. citizen either (a) stays in the Netherlands for more than seven years or (b) goes there with the intention to remain indefinitely. In the first case the treaty provides that the U. S. will give a credit for the Dutch tax regardless of the situs of the property of the estate, except that in the case of real estate or unincorporated business property in the U. S., the Netherlands would give a credit. In the second case a

credit formula limits the total tax to the greater of the two taxes and provides for a division thereof between the two countries.

3. Limiting taxation of residents of the other country to local real estate and unincorporated business assets. To deal with the case of the Dutch resident who invests in U. S. securities, the U. S. agrees to forego its tax on the securities even if the value of the U. S. assets exceeds the $30,000 U. S. exemption. To accomplish this the treaty provides that each State will only tax the local real estate and unincorporated business property in the estate of domiciliaries of the other State. The U. S. however still reserves the right to tax its citizens on a worldwide basis even if they are Dutch domiciliaries.

In this connection, it should be noted that this treaty provision will involve little revenue loss. The treaty seeks to assure that a Dutch tax will be paid on U. S. securities by retaining the requirements for filing a return in the U. S. This will enable the U. S. to obtain the information on U. S. securities held by Dutch decedents so that such information might be forwarded to the Dutch.

4. Matching allowances granted by the Netherlands. Because the special U. S. tax rate schedule applicable to nonresident aliens that was enacted as part of the FITA is essentially equivalent to our giving Dutch estates the marital deduction, the Dutch have agreed to reciprocate. In Article 10 of the convention, they have agreed to give a 50 percent marital deduction with respect to real property and unincorporated business property going to the spouse of a decedent. This exemption provided under the convention by the Netherlands will apply only as long as the favorable treatment provided for nonresident aliens under FITA continues to apply.

The Dutch have also agreed to give, a "disappearing" $30,000 exemption to the estates of decedents who were U. S. domiciliaries or citizens not domiciled in the Netherlands at death. This corresponds to the $30,000 exemption the United States granted to nonresident alien estates under FITA. The convention exemption will completely relieve from tax an estate of $30,000 or less of a decedent who was not a domiciliary of the Netherlands. It applies to a lesser extent to estates of up to $34,090 and not at all to larger estates, and thus may be said to "disappear" with respect to larger estates.

* * *

As in the case of our income tax conventions, the proposed Dutch estate tax convention includes an article on the exchange of information. This provision is primarily designed to assist in the prevention of tax evasion.

The convention would apply to estates of persons dying on or after the date on which instruments of ratification are exchanged and will continue in force unless terminated, subsequent to five years after ratification, by the United States or the Netherlands.

I should like to note the pioneering nature of this convention. It is our first estate tax convention along the lines of the OECD model. It ties together two countries with differing views regarding the primary basis for tax jurisdiction, the United States emphasizing citizenship and domicile and the Netherlands emphasizing residence. It deals with a serious problem of double taxation which has been of great concern, especially to those Americans temporarily living in the Netherlands. We feel that this approach will not only avoid double taxation but make it easier for taxpayers to fulfill their obligations.

This convention will serve as a prototype for our future estate tax negotiations.

We have submitted a technical explanation which discusses the proposed convention article by article.

REVISED INCOME TAX CONVENTIONS WITH TRINIDAD AND TOBAGO, FINLAND AND BELGIUM

I now turn to the proposed income tax conventions with Trinidad and Tobago, Finland, and Belgium. I would like to emphasize that all three conventions closely follow our recent treaty with France which was approved by the Senate in 1968. These conventions are also along the lines of the OECD income tax model and recent treaties entered into by other countries.

Each of these conventions is a revision of an existing convention. For the most part the changes made are the result of the rethinking of tax treaty concepts and language which has taken place during the years since the original conventions were signed. A major influence on this rethinking process has been the work of the Fiscal Committee of the OECD which published its Draft Double Taxation Convention on Income and Capital in 1963 and which has held continuing discussions since then on the various provisions. Also an important influence is the policy development reflected in the Foreign Investors Tax Act of 1966.

An important example of the modernization of treaty concepts that these conventions embody is the elimination of what has come to be called the "force of attraction" rule which is incorporated in the existing treaties with Finland and Belgium. Under that rule, if a resident of one State engages in trade or business through a fixed place of business (permanent establishment) in the other State, all of his income from the other States is taxed as profit of the permanent establishment. The limitations on the rate of tax which can be imposed on dividends, interest and royalties or the exemption for interest or royalties and the exemption for capital gains would be applicable.

Recent treaties, including the three under consideration, provide instead that only income which is "effectively connected" with a permanent establishment will be taxed as business profits without regard to the limitations which the treaty provides for the tax which may be imposed on certain types of income; therefore, dividends, interest and royalty income not attributable to a permanent establishment will be accorded any reduced rate provided for in the treaty and the exemption for capital gains not so attributable could apply.

The basic functions of an income tax treaty are to avoid double taxation, to provide for a fair division of tax revenues between the two States, and to prevent fiscal evasion. To accomplish these purposes, a number of basic rules are set forth in the proposed treaties with Trinidad and Tobago, Finland and Belgium. The rules, which are described in greater detail in the technical explanations that have been submitted for the record, are as follows:

1. Taxation of business profits. In order to give business flexibility to undertake foreign operations in a preliminary or limited fashion without being subject to foreign income taxes, the treaties provides that a resident of one State (including a corporation) is not subject to tax in the other State on industrial or commercial profits unless it has a permanent establishment in that other State. The definition of industrial and commercial profits in the proposed conventions with Finland and Belgium and in our existing convention with France includes motion picture rents and royalties and results in the taxation of motion picture royalties by the State of source only if the income is attributable to a permanent establishment in that State.

In general a permanent establishment is a fixed place of business, but following the OECD model, certain types of fixed places of business (such as purchasing offices) do not constitute permanent establishments and certain activities carried on without a fixed place of business (such as a local dependent agent who concludes contracts) do constitute a permanent establishment.

2. *Air and sea carriers*. The treaties provide reciprocal exemption for international air and sea carriers.

3. *Double taxation arising from inconsistent treatment*. The treaties provide a mechanism for avoiding double taxation resulting from different allocations of income and deductions between head office and branch or between related companies in the two countries. This is to be accomplished by consultation between the "competent authorities" of the two States for the purpose of seeking to agree on an allocation. If an agreement is reached, the treaties provide that taxes will be imposed or adjusted to reflect the allocations agreed upon. In addition to problems of allocation, the treaties provide for mutual agreement to resolve differences in source rules and to deal with difficulties or doubts arising in the application of the provisions of the convention.

4. *Credit or exemption to avoid double taxation*. While the United States and some other countries have provisions in their domestic law to avoid double taxation

on income from foreign sources which is subject to foreign tax, it is traditional to agree in income tax conventions to allow a tax credit or exempt such income. Thus, in each of these conventions the U. S. agrees to grant a foreign tax credit for the tax paid to the other country. This obligation is met by the provisions of our domestic law. Trinidad and Tobago similarly agrees to grant a credit. Finland agrees to a credit in certain cases and an exemption in other cases. Belgium agrees to a partial or full exemption in certain cases and a credit in other cases. In the case of both Finland and Belgium, exempt income can be taken into account for purposes of determining the applicable rate of tax.

5. Taxation of dividends, interest and royalties and exemption of capital gains. The treaties contain provisions establishing the maximum rates of tax on direct investment and portfolio dividends, interest and royalties which may be imposed by the State of source. These provisions are for the purpose of both avoiding double taxation and dividing the revenue between the payor's and recipient's country. The treaties (other than the one with Trinidad and Tobago) provide exemption for capital gains for a resident of the other country. The conditions for the exemption

differ somewhat in the Finnish and Belgian treaties, but will generally be met by the ordinary investor. In the case of Trinidad and Tobago, both it and the United States have domestic rules which provide a large measure of exemption for foreigners deriving capital gains and it was thought unnecessary to have a treaty provision.

6. Exemption for individuals. In order to give flexibility to employees and independent persons (such as doctors and lawyers) of the type given to businesses, the treaty similarly provides in general that activities of a temporary or limited nature by a resident of one State in the other State will not result in the resident being subject to income tax in that other State. In the OECD model artists and entertainers do not qualify for these benefits; they are taxable wherever they perform services. Finland agreed not to treat such persons differently, but the Belgium and Trinidad treaties compromise by providing special dollar limits (and in the Belgian case a shorter time period) for such persons if they are not to become subject to tax in the State visited.

7. Retirement and alimony. The treaties deal with the taxation of retirement income and include provisions for the taxation of pensions, annuities and, except in Trinidad, social security payments. Each also contains a provision on alimony.

8. Students and teachers. In order to encourage cultural exchanges of students, trainees and teachers, temporary exemption from host State taxes are provided.

9. Nondiscrimination. The treaties contain a nondiscrimination provision.

10. Measures against evasion. The treaties provides for exchanges of information. While the provisions are standard, the U. S. has in recent months given increased attention to the most effective use of these provisions to prevent tax evasion and avoidance.

Before turning to separate discussion of each of these treaties, I should note that the proposed conventions with Trinidad and Tobago and Belgium specifically include continental shelf areas as part of the respective countries. While a similar provision was proposed to Finland, and while the concept was agreeable to Finland as well as to the United States, we could not agree on a provision in the absence of certain Finnish policy decisions.

I will now review briefly the special features of each of the proposed income tax conventions.

Treaty with Trinidad and Tobago

The proposed treaty with Trinidad and Tobago would replace an abbreviated, interim treaty, which was signed in 1966 and expired on December 31, 1969.

The interim treaty was limited in scope and covered only the withholding tax on dividends and the allowance of a foreign tax credit. The proposed treaty is comprehensive, covering the full range of commercial and financial transactions between the United States and Trinidad and Tobago.

1. Tax Deferral for Technical Assistance

To facilitate the flow of technical assistance and know-how to Trinidad and Tobago, we have included, as Article 7 of the proposed treaty, a provision for the deferral of the tax in both countries where stock is received in exchange for patents, technical assistance, know-how and ancillary services. When the stock is disposed of, tax is imposed.

While a similar result can be achieved under section 367 and other provisions of the U. S. Internal Revenue Code, the treaty provisions is somewhat broader and applies to taxes of both countries. Absent this provision, the taxes which would be imposed would often act as a barrier to such technical assistance since the transaction does not give rise to the liquid assets necessary to pay the tax.

We consider this type of provision appropriate to treaties with developing countries.

2. Taxation of Investment Income

Under the interim treaty, the withholding tax rate on dividends was limited, on a reciprocal basis, to 25 percent, except that in the case of direct investment dividends where the recipient corporation owned 10 percent or more of the voting stock of the paying corporation, the rate was limited to 5 percent.

Under the proposed treaty Trinidad will reduce its rates of withholding tax on dividends from the statutory level of 30 percent to 25 percent, except that direct investment dividends will be taxed at 10 percent. There is to be no reduction in the U. S. statutory withholding rate of 30 percent.

The proposed convention provides for the reciprocal exemption of interest paid to the government of a Contracting State or its wholly owned instrumentalities. Interest derived from sources in Trinidad and Tobago by a resident of the United States which is a bank or other financial institution not having a permanent establishment in Trinidad and Tobago will be subject to Trinidad withholding at a reduced rate of 15 percent. United States tax in the reciprocal case will be levied at the full 30 percent rate.

Withholding rates on royalties, under the proposed treaty, are to be reduced from the statutory level of 30 percent in both countries to 15 percent.

While artistic royalties are generally exempt under this provision, at the insistence of Trinidad and Tobago royalties are defined to exclude motion picture royalties. Neither are such royalties included in the definition of industrial and commercial profits as in the case of Finland and Belgium. As a result, payments from motion pictures will continue to be taxed under the respective laws of the two countries. In the case of Trinidad, tax will presumably continue to be imposed on the basis of a

1956 agreement with the motion picture distributors, under which the distributors are taxed on the portion of their worldwide net income allocable to Trinidad and Tobago.

3. Effective Date

In Article 28, Trinidad and Tobago has agreed to put into effect the reduced rate of tax on dividends as of the date of signing of the convention (January 9, 1970). This unilateral reduction of the withholding rate will terminate on December 31, 1970, unless instruments of ratification are exchanged by that date. Therefore, Senate action in time to permit an exchange of instruments of ratification this year is most important. If this is done there will be no hiatus in treaty coverage as it will have effect for taxable years beginning on or after January 1, 1970.

4. Investment Incentive

The Government of Trinidad and Tobago was most eager, throughout the negotiations, to have included in the proposed treaty a provision that would preserve for U. S. investment in Trinidad and Tobago the effect of a tax incentive program provided under their law. In a view shared by most developing countries, they feel that such tax incentive can be an important factor in the economic development of the developing country, and that its preservation in a tax treaty is an appropriate quid pro quo for the revenue loss which a standard type treaty imposes on the developing country. In order to expedite ratification of the new treaty, Trinidad and Tobago nevertheless agreed to a treaty without such an incentive. It was agreed, however, through an exchange of notes which I have submitted to the Committee for publication in the record of these hearings, that further discussions would be held between the two governments in an effort to agree on some form of supplementary protocol that would provide a tax impetus to U. S. direct investment in Trinidad and Tobago. Such a protocol would, of course, be submitted to the Senate for its advice and consent.

Treaty with Finland

The convention with Finland was signed on March 6, 1970, and replaces our earlier treaty signed in 1952

1. Taxes Covered

The existing treaty limits the coverage of Finnish taxes to the national income tax. The proposed treaty expands this coverage to include the communal tax, the sailors tax and the capital tax.

As the United States does not have a separate net wealth tax, the new article reciprocally exempting non-business property, other than real property, of a resident of one State from the capital tax of the other State, represents a unilateral concession by Finland.

2. Investment Income

The proposed convention eases the requirements necessary to obtain the reduced treaty rates on direct investment dividends. The existing treaty provides for a maximum rate of 5 percent of intercorporate dividends if the parent corporation owns at least 95 percent of the stock of the paying corporation. The proposed convention maintains the 5 percent rate and lowers the stock ownership requirements from 95 percent to 10 percent.

The proposed convention limits the rate of tax on other dividends to 15 percent which is the Finnish statutory withholding rate.

The exemption of interest in the country of source is carried over to the new treaty from the present treaty.

The proposed convention carries over the provision in the existing treaty exempting royalties in the State of source. However, it also extends the exemption by broadening the definition of royalties significantly beyond the copyright royalties covered by the existing convention to include such royalties as patent, secret-process and trademark royalties.

3. Income of Finnish Trainees

There is a new provision in Article 23, not included in any previous U. S. convention, which provides that an individual who is a resident of one Contracting State and is present as a teacher, student, or trainee in the other State and qualifies for exemption under the teacher or student and trainee article of the treaty shall be allowed by his State of residence to deduct foreign travel and living expenses. Such expenses are deemed to be at least 30 percent of the income exempted in the State visited.

Although the provision is written reciprocally it has an impact only on Finnish tax. There are joint U. S. - Finnish programs, privately administered, to encourage young Finnish trainees to come to the United States for periods of six months to a year to work in U. S. industry. Under Finnish law the income they earn here continues to be subject to the steeply progressive Finnish income tax but no deduction is given for their travel and living expenses. Their expenses are higher as participants in these programs than they would be if they remained in Finland, but their Finnish tax is not reduced to reflect this. This result has discouraged Finns from participating in these programs and is corrected by the treaty provisions.

Treaty with Belgium

The convention with Belgium was originally signed in 1948. It has been subsequently amended, most recently in 1965 in connection with major amendments in Belgium law in a Protocol which expires as of December 31 of this year. The Protocol was deliberately limited in duration to assure that the convention would receive a prompt and thorough review which both sides recognized to be desirable.

1. Branch Profits: Statutory Discrimination Eliminated

Belgian tax law treats branches of foreign corporations less favorably than Belgian corporations. Foreign branches are taxed at the highest statutory rate which applies to undistributed profits of domestic corporations, presently 40.6 percent. Recognizing that this treatment is inconsistent with the treaty principle of nondiscrimination, Belgium has since 1968 been applying its lower rate (37.7 percent) for distributed profits to the profits of Belgian branches of U. S. corporations which can be assumed to have been distributed. In the new treaty this practice is confirmed. Thus, if a U. S. corporation with a Belgian branch distributes one-half of its total profits, the Belgian branch will be assumed to have also distributed one-half of its profits on which it will pay the lower rate.

2. Taxation of Investment Income

The statutory Belgian withholding rate on dividends paid to nonresidents is 20 percent. The new United States-Belgian treaty retains the existing treaty maximum of 15 percent by either State on dividends paid to residents of the other State. Because the Belgian corporate tax is relatively low (37.7 percent on distributed profits) Belgium is not willing to give up additional revenue by reducing its withholding rate on direct investment dividends below 15 percent. No Belgian treaty authorizes a lower rate for direct investment dividends.

The new convention maintains for the general case the 15 percent limit on interest paid to a resident of the other State found in the existing convention, but introduces exemption in selected cases. Under the new treaty, generally, there will be no tax at source on interest: (a) paid to governments and their instrumentalities, (b) arising from commercial credit, (c) paid between banks and (d) paid on bank deposits.

With respect to royalties, it was agreed to retain exemption at source as provided for in the existing convention.

3. Effective Date

The convention will enter into force one month after the exchange of instruments of ratification and will have effect with respect to income of calendar or taxable years beginning on or after January 1, 1971.

In conclusion, Mr. Chairman, I would strongly urge, on behalf of the Administration, that the Senate, as promptly as possible, give its advice and consent to the ratification of these four conventions.

October 6, 1970

Technical Explanation of Proposed U.S.-Netherlands Estate Tax Convention

Introduction

The proposed Estate Tax Convention and Protocol with the Netherlands is the first estate tax convention to be sent to the Senate since the Convention between the United States and Canada, which was ratified on January 31, 1962. That Convention replaced an earlier estate tax convention between the two countries. Prior to that the most recent estate tax convention forwarded to the Senate was with Italy. It was ratified on July 29, 1955.

The proposed Convention is substantially different from the twelve existing tax conventions[1] principally because of two significant developments since the negotiation of our last estate tax convention. The new convention is the first to reflect changes and the policies underlying those changes in United States

[1] The United States has estate tax conventions in force with Australia, Canada, Finland, France, Greece, Ireland, Italy, Japan, Norway, Switzerland, the Republic of South Africa, and the United Kingdom.

estate taxation of nonresident aliens contained in the Foreign Investors Tax Act of 1966. The proposed convention is also based, in part, on the provisions of the OECD Model Estate Tax Convention (entitled Draft Double Taxation Convention on Estates and Inheritances), published in 1966 by the Organization for Economic Co-operation and Development, to the extent consistent with the laws and policies of the United States and the Netherlands. The United States played a substantial part in the drafting of the model convention. As the United States nears the completion of its income tax convention network in Western Europe (based on the OECD Model Income Tax Convention), we are seeking a complementary estate tax convention system. The proposed convention reflects a coordination and rationalization of the Netherlands succession and transfer duties (typical of Western European legal systems) with the United States estate tax.

However, most of the provisions in the proposed convention are found in the existing conventions and only a few provisions are new, such as Article 4, which provides rules designed to ameliorate tax problems of persons temporarily present in a foreign country, and Article 10 (1), which provides for a marital exemption.

The provisions of the proposed Convention are discussed article by article below, after brief summaries of the Federal estate tax, the Dutch succession and transfer duties, and the general approaches of existing United States estate tax conventions and the OECD Model Convention.

Federal Estate Tax

The Federal estate tax is imposed with respect to the worldwide estates of decedents who were citizens or residents of the United States at death and on the estates of nonresidents who were not citizens (referred to hereafter as nonresident aliens) with respect to their property deemed situated in the United States. For Federal estate tax purposes, a resident of the United States is a domiciliary therein, i.e., a person residing in the United States who has the intention to remain in the United States indefinitely or a person who has lived in the United States with such an intention and who subsequently left the United States without having the intention to remain indefinitely in the country of his new residence. In other words, while the term "resident" is used in the estate tax laws, it is generally defined in terms of the common law rules with respect to domicile.

For situs rules of United States domestic law, see sections 2104 and 2105 of the Internal Revenue Code of 1954 (the "Code") and the regulations thereunder; for a discussion of the more important types of property taxable on the basis of situs under these rules but exempt under the Convention see the commentary on Article 8 in this technical explanation.

Estates of citizens or residents are allowed: (a) a $60,000 exemption; (b) a marital deduction for property passing to the surviving spouse of the decedent of up to 50 percent of the adjusted gross estate; and (c) deductions for debts, funeral and administration expenses, and claims against, and losses of, the estate. The taxable estate is taxed at rates progressing from 3 to 77 percent. Credits are allowable for foreign death taxes with respect to property which is considered under United States situs rules to be situated in the taxing foreign country and which is included in the gross estate for Federal estate tax purposes.

Since the enactment of the Foreign Investors Tax Act of 1966, estates of nonresident aliens are allowed a $30,000 exemption plus deductions for a proportion of the debts, funeral and administration expenses, claims, and losses (based on the proportion of the decedent's worldwide estate which is located in the United States). The United States estate is taxed at rates ranging from 5 percent to 25 percent. The lower rates are designed to compensate for the fact that no marital deduction is allowable. See Senate Report No. 1707, 89th Congress, 2d Session (1966), page 50.

Netherlands Succession and Transfer Taxes

The Netherlands imposes a succession duty with respect to the worldwide estates of residents of the Netherlands on each beneficiary of the estate. For this purpose, a decedent is considered a resident of the Netherlands if he had a habitual abode in the Netherlands, even though he had no intent to remain there indefinitely and was therefore not a domiciliary of the Netherlands under United States law. This is one of the basic differences in the assertion of taxes at death between the United States and the Netherlands. The proposed convention attempts to rationalize this difference on a more complete and equitable fashion then is found in existing conventions. Exemptions and rates under Netherlands law vary with the degree of relationship between the decedent and the beneficiary. The surviving spouse is entitled to an exemption equivalent to $69,450, while other beneficiaries have exemptions equivalent to from $139 to $2,778. The rates are progressive and range from 3 percent to 17 percent in the case of the spouse and children of the decedent and from 36 percent to 54 percent in the case of unrelated beneficiaries. Deductions are allowable for debts and funeral expenses. Administration expenses are not deductible but normally are smaller than in the United States. Foreign taxes are creditable against tax or deductible as debts, depending on the jurisdictional basis upon which they are imposed.

Citizens of the Netherlands who were not residents of the Netherlands at death but were residents thereof within 10 years of death are deemed residents of the Netherlands for purposes of the death duty. However, all taxes of the country of actual residence are credited rather than deducted in such cases.

A transfer duty at death is the only tax imposed with respect to estates of nonresidents and is only imposed on immovable (real) property, mortgages, business assets (including ships, boats, and aircraft), and certain types of business investments other than marketable securities, if deemed situated in the Netherlands. No deductions (other than for debts specifically related to taxable property) or exemptions are allowed with respect to the transfer duty, which is imposed at a rate of 6 percent.

Existing United States Conventions and
OECD Model Convention

Existing United States estate tax conventions provide for the taxation of the worldwide estates of decedents by the country of domicile or citizenship (nationality). Like United States domestic law, these conventions are based on the situs principle of taxation. That is, tax is imposed on estates of nonresident aliens with respect to property located in the taxing country, and a credit is granted by the country of which the decedent was a citizen or domiciliary for estate or inheritance taxes paid to the other country with respect to the property. In certain cases (for example, where the property is deemed situated in or outside both countries), existing conventions provide that the countries each gave a partial credit.

Such conventions provide comprehensive situs rules (more detailed than, and at times differing from, those contained in the Code) and state that situs shall be "determined exclusively in accordance with" these rules. Accordingly, property considered under such a convention to be situated in a country may be taxable by it, notwithstanding that the property would not be taxed or taxable by that country under its domestic law in the absence of the convention. However, some conventions contain a provision, corresponding to Article 5(3) of the Convention, which limits the maximum amount of tax of a country under the convention to the amount of tax which would be imposed by the country in the absence of the convention.

On the other hand, Articles 5, 6, and 7 of the OECD Model Convention provide that certain specified categories of property may be taxed by a country in which the property is deemed located even though the decedent was nether a domiciliary nor a citizen of that country. Accordingly, it appears that the OECD Model Convention would not extend the taxing jurisdiction of the countries beyond that provided in their domestic laws.

The OECD Model Convention places principal emphasis on domicile of the decedent. It provides that all property shall be taxable by the country in which the decedent was domiciled at death. However, real (immovable) property and business assets other than ships and aircraft may also be taxed by the country in which they are situated. Ships and aircraft may also be taxed by the country where their effective management is located. In order to eliminate double taxation of such property, the country of domicile shall grant an exemption for such property or a credit for the other country's taxes thereon. Although the taxing rules relating to real property, business assets, and ships and aircraft are similar in effect to situs rules the former are more limited. Accordingly, taxing jurisdiction of a country in which the decedent was not domiciled is more limited under the OECD Model Convention than under the Code or existing United States tax conventions. In addition, the OECD Model Convention makes no provision for the taxation of the worldwide estates of decedents based upon citizenship or nationality. It does offer an alternative provision which might be used to authorize such taxation, but such provision would be subsidiary to taxation based on domicile and would require the country of citizenship in effect to relinquish primary taxing jurisdiction to the domiciliary country through an exemption or credit.

In determining domicile, the OECD Model Convention refers to the law of each of the countries. If both countries find domicile, the OECD Model Convention resorts to a sequence of tests, the application of which is intended to assure that there is one and only one domicile. This series of tests involves the concepts of permanent home, center of vital interests, habitual abode, and citizenship, in that order. If these tests do not solve the question of domicile in any given case, the OECD Model Convention provides that the countries shall settle the question by mutual agreement.

These concepts are highly uncertain in their actual application, involving factual determinations in each case which may be extremely difficult to make and very controversial. They follow the general European pattern of little more than residence giving rise to domicile for both estate and income tax purposes. The OECD Model Convention reflects the substantially different jurisdictional concepts of most European countries and the United States. The United States asserts primary taxing jurisdiction based on citizenship or domicile. European countries assert primary jursidcition generally based on residence without regard to nationality or citizenship or domicile. The common law concept of "domicile" is generally unknown under European laws. See the commentary on Article 4.

Analysis of Proposed Convention:

Article 1. ESTATES COVERED

The Convention shall apply to estates of decedents which are subject to the taxing jurisdiction of the

United States or the Netherlands by reason of the decedent's domicile therein or citizenship thereof at death. Because of the domestic laws of the two states, the Convention applies to the estate of a decedent who was either a domiciliary or a citizen of the United States or who was a domiciliary of the Netherlands. Dutch law does not provide for taxation based solely on citizenship. However, the estate of a nonresident citizen of the Netherlands is taxed on the basis of constructive residence in the Netherlands if the decedent had been a nonresident of the Netherlands less than 10 years at his death. See the discussion of the Dutch succession duty in the introduction and under Article 9 (relating to taxation on the basis of citizenship).

The Convention refers to citizenship (and domicile) at death; decedents described in section 2107 of the Internal Revenue Code of 1954 (relating to decedents who are United States expatriates and who relinquish United States citizenship for the principal purpose of avoiding taxes) are not United States citizens for this purpose. See also Article 9. However, the estate of a United States expatriate decedent who died domiciled in the Netherlands will be covered by the Convention on the basis of such domicile.

The second sentence of the article is necessitated by section 2209 of the Code. That sentence provides, in effect, that the Convention shall not apply to the estate of a citizen of the United States described in section 2209 (*i.e.*, a resident of a possession of the United States whose citizenship resulted solely from his citizenship of, or his birth or residence in, the possession and who is therefore not subject to federal estate tax as a citizen under the provision of section 2209 of the Code) unless his estate is subject to the taxing jurisdiction of the Netherlands by reason of his actual or deemed domicile therein at death.

Article I of the Protocol to the Convention which was executed at the signing of the Convention states that the Convention shall not affect property rights under laws relating to descent, distribution, succession, inheritance, or other similar matters.

Article 2. TAXES COVERED

This article designates the taxes of the United States and the Netherlands which are the subject of the Convention. With respect to the United States, the tax included is the Federal estate tax. With respect to the Netherlands, the taxes included are the succession duty and the transfer duty at death. The Convention also applies to subsequently enacted taxes on estates and inheritances imposed on the occasion of death, in the form of a tax on the corpus of the estate, a tax on inheritance, transfer duties, or taxes on donations mortis causa. It does not apply to such taxes ad documentary stamp taxes with respect to transfers at death or income taxes on the appreciation of capital assets at death. Nor does it apply to taxes imposed by any of the States of the United States or other local authorities.

This article provides further that the competent authorities of the United States and the Netherlands shall notify each other of any substantial changes in their respective laws relating to taxes on estates and inheritances.

Article 3. GENERAL DEFINITIONS

This article defines the terms "State", "United States", "Netherlands", "tax", "credit", and "competent authority".

The term "State", as used in the Convention, refers to the United States of America (when used in the geographical sense it refers to the several States of the United States and the District of Columbia) and the part of the Kingdom of the Netherlands that is situated in Europe. The treaty does not cover Surinam or the Netherlands Antilles which are part of the Kindgom of the Netherlands. No reference is made to the continental shelf.

The article also provides that any term not otherwise defined in the Convention shall, unless the context otherwise requires, have the meaning which it has under the laws of the State whose tax is being determined. Article II of the Protocol provides that if the meaning of a term under the laws of one State is different from the meaning of the term under the laws of the other State, or if the meaning of such a term under the laws of one or both States is not readily determinable, the competent authorities of the States may, in order to prevent double taxation or to further any other purpose of the Convention, establish a common meaning of the term for purposes of the Convention.

Article 4. FISCAL DOMICILE

This article sets forth rules for determining fiscal domicile for purposes of the Convention. Fiscal domicile is important since the domicile of the decedent is a basis for imposing estate tax or succession duty on his entire estate wherever situated.

Article IV of the Protocol states that, as used in the Convention, the term "domicile" with respect to each of the States means residence for purposes of its tax.

Under the definition of fiscal domicile contained in this article each State looks first to its domestic law (however, see the discussion below of Article V of the Protocol, relating to the 10-year rule under Netherlands law). The definition then provides rules for determining a single domicile in cases in which both of the States regard the decedent as having been a domiciliary. (Existing conventions do not provide for the elimination of double domicile, but rather give relief from double taxation in double domicile cases by means of a prorated credit similar to that provided in Article 11(2)(c) of this Convention).

The proposed Convention provides that a decedent who at his death was a citizen of one of the States without being a citizen of the other State, and who would be considered as domiciled in both States under their respective laws, shall be deemed to have been domiciled only in the State of which he was a citizen if (1) he died when having been domiciled (for purposes of tax) in the other State in the aggregate less than 7 years during the 10-year period ending at his death, and (2) he was in the other State for business, professional, educational, training, tourism, or a similar purpose (or as the spouse or a dependent member of the family of a person who was in that other State for such a purpose), and if he did not have a clear intention to remain indefinitely in the other State. Unless all of the evidence considered together is clear and convincing to the contrary it shall be presumed that the decedent did not have a clear intention to remain indefinitely in the State of which he was not a citizen. The use of a 7-out-of-10 year rule rather than a simple period of time avoids issues arising from a relatively short change in status. (As a corollary to this 7-out-of-10 year rule, the State of citizenship yields priority of taxation (by means of a credit) to the other State after 7 years of domicile therein in a 10-year period. See Article 11(2)(a)). This rule conforms the Convention to some extent to the OECD Model Convention approach and recognizes that decedents who lived in a foreign country for a substantial number of years preceding death normally have significant ties with that country justifying the imposition of primary taxing jurisdiction by such country.

In the cases in which a single domicile is not determined under the above rules,[2/] additional tests are set forth to resolve the decedent's domicile. These tests are based on the tests for determining domicile contained in the OECD Model Convention, with certain variations. The first such test provides that the decedent shall be deemed to have been domiciled in the State in which he made his permanent home for 5 years or more immediately preceding his death. Article III of the Protocol provides that for this purpose a decedent shall not be deemed to have more than one permanent home. If that test does not determine the decedent's domicile, his domicile shall be deemed to be in the State in which his personal relations were closest. If that cannot be determined, his domicile shall be deemed to be in the State of which he was a citizen. If the decedent was a citizen of both States or neither of them, the competent authorities shall determine the State of his domicile by mutual agreement. Article VI of the Protocol provides that since it is

[2/] For example, cases of double citizenship, citizenship in a third country, or a decedent in the State of which he was not a citizen for more than 7 out of 10 years without the clear intention to remain there indefinitely.

intended by Article 4 to resolve all cases of double domicile, the competent authorities of the States shall resolve any dispute with respect to the domicile of the decedent for purposes of the Convention which is presented to one or both of them within the period of time prescribed under Article 12 for the filing of a claim for credit or refund of tax.

Article V of the Protocol provides that the Netherlands will not, for purposes of determining domicile under this article, assert its domestic 10-year rule presumptive of domicile with respect to decedents who were citizens of the Netherlands and who were in the United States for less than 10 years immediately preceding death, if the decedent had the intention to remain indefinitely in the United States. Accordingly, a citizen of the Netherlands, who at his death was in the United States with the intention of remaining indefinitely is considered a domiciliary of the United States for purposes of the Convention, although he did not have a permanent home here for 5 years. The Netherlands may, however, tax the worldwide estate of such a decedent pursuant to Article 9 of the Convention, relating to taxation based on citizenship. Double taxation is avoided through the credit provisons of Article 11.

Article 5. APPLICATION OF DOMESTIC LAWS

This article provides for the application of domestic law except as otherwise provided in the Convention. Accordingly, for example, the deductibility of debts is determined by each State under its domestic laws.

Under Netherlands law debts secured by property described in Article 6 or 7 are deducted entirely from the value of the property to which they relate. Under United States law debts of the decedent are prorated among all of the assets of the estate for purposes of determining the taxable estates of nonresident aliens and the credit allowable with respect to estates of United States domiciliaries or citizens. See example (6) in the commentary on Article 11.

This article provides further that, in any case in which the laws of a State allocate deductions on the basis of the situs of property, property shall be deemed for the purpose of determining the amount of any deductions to have a situs in that State only if that State may tax it under the Convention. For example, in the case of a Dutch domiciliary and citizen who dies owning real property in the United States and stock of United States corporations, allocation of debts should be made under section 2106(a)(1) of the Internal Revenue Code of 1954 based solely on the ownership of the United States real property since the stock is not taxable by the United States under the Convention.

In order to allocate debts properly for credit purposes, this article further provides that property shall be deemed for the purpose of determining the amounts of any credits to have a situs in the other State only if a credit is allowable under the Convention for the tax of that other State with respect to the property.

Article 5 also preserves reporting and recordkeeping requirements of domestic law based upon situs with respect to property which Article 8 of the Convention exempts from tax. See section 6018(a)(2) of the Internal Revenue Code of 1954 and §§ 20.6036-1(a) and 20.6325-1(b) of the Estate Tax Regulations. This provision relates specifically to information or tax returns or notices, transfer certificates, or maintenance of records, and provides that sanctions under domestic law (civil and criminal) shall not be affected by exemption under the Convention. In other words, in the preceding example, if the estate fails to file returns or notices or obtain transfer certificates, or maintain records, as would be required in the absence of exemption of the stock, then sanctions may be imposed to the same extent as if the Convention had not exempted the stock from tax. This provision is necessary in order to have effective sanctions since most civil sanctions are based upon the amount of the underpayment of tax, which in this case may be zero by reason of the Article 8 exemption.

One of the principal purposes of the proposed convention is the prevention of fiscal evasion. Even though the United States relinquishes jurisdiction to tax certain property, such as stock of United States companies, retention of the above requirement and sanctions is designed to prevent evasion of Netherlands tax. In the event that any of these requirements or sanctions proves to be unnecessary it may be removed or modified by regulations.

Finally, this article provides that the Convention shall not result in an increase in the amount of the tax imposed be either State (except to the extent that the increase results from the reduction under the Convention of the tax paid to the other State for which credit is allowable).

Article 6. IMMOVABLE PROPERTY

Article 6 provides that immovable property may be taxed by a State if the property is situated in that State.

The United States has no law defining "immovable property". The term as applied to United States property is considered to mean real property for purposes of the Convention. Security interests are not deemed real property for this purpose.

The last paragraph of Article 6 (and of Article 7), together with the usage of the permissive words "may be taxed" in the first paragraph, precludes any extension of a State's taxing jurisdiction under this article beyond that provided in its domestic law.

Article 7. BUSINESS PROPERTY OF A PERMANENT ESTABLISHMENT AND ASSETS PERTAINING TO A FIXED BASE USED FOR THE PERFORMANCE OF PROFESSIONAL SERVICES

This article provides that assets (other than ships, boats, and aircraft operated in international traffic, movable property related thereto, and immovable property) which form part of the business property of a permanent establishment may be taxed by a State if the permanent establishment is situated in that State. The article applies to such assets to the extent they were used or held for use in the conduct of the business of the permanent establishment.

The article defines the term "permanent establishment". The definition is an updated adaptation of the definition found in the Income Tax Convention between the United States and the Netherlands. As so defined, the term "permanent establishment" means a fixed place of business through which a decedent was engaged in trade or business. This includes a decedent's interest in a partnership or other unincorporated association (which is not taxed as a corporation). The term "fixed place of business" includes a branch, an office, a factory, a workshop, a sales outlet, a mine, quarry, or other place of extraction of natural resources, and a building site or a construction or assembly project which exists for more than 12 months (including any period of existence after the decedent's death).

The article specifically excludes from the definition of permanent establishment a fixed place of business used solely for one or more of the following activities: (1) The storage, display, or delivery of goods or merchandise belonging to the decedent; (2) the maintenance of a stock of goods or merchandise belonging to the decedent for the purpose of storage, display, or delivery; (3) the maintenance of a stock of goods or merchandise belonging to the decedent for the purpose of processing by another;

(4) the purchase of goods or merchandise, or the collection of information, for the decedent; (5) advertising, supplying information, conducting scientific research, or similar activities which had a preparatory or auxiliary character, for the decedent; or (6) the maintenance of a fixed place of business (by a person acting in a capacity other than that of a dealer) for the purpose of investing or trading in stocks, securities, or commodities for the decedent's own account, whether directly or through a broker or other agent.

The decedent will be considered to have had a permanent establishment if he engaged in business through an agent (other than an independent agent acting in the ordinary course of his business or an agent described in (6) of the preceding paragraph) who had and regularly exercised authority to conclude contracts in the name of the decedent, unless the agent only exercised such authority to purchase goods or merchandise for the decedent. On the other hand, the decedent is not deemed to have had a permanent establishment merely because he carried on a trade or business through an independent agent acting in the ordinary course of the agent's business.

The fact that the decedent controlled a corporation shall not be taken into account in determining whether the decedent had a permanent establishment. Thus, for example, an activity of the decedent will not be deemed a permanent establishment by reason of the fact that the decedent controlled a corporation operating (through a permanent establishment or otherwise) in the same State.

Assets (other than immovable property) of a fixed base used for the performance of professional services or similar activities may be taxed by a State if the fixed base is situated therein.

Article 8. TAXATION ON THE BASIS OF DOMICILE

This article authorizes the State of which the decedent was a domiciliary at death to tax all property in the estate wherever situated (if taxable under the domestic law of the State), and prohibits a State of which the decedent was neither a citizen nor a domiciliary from taxing property (or taking property into account in determining the rate of tax) except to the extent provided in Article 6 or 7. Under this provision, and subject to the provisions of Article 9, a State of which the decedent was not a domiciliary may not tax such property as stock, bonds, life insurance proceeds, jewelry, art objects, or immovable property situated in another country, unless the property is taxable by it under Article 7. Nor may such a State tax ships or aircraft operated in international traffic or movable property pertaining to their operation.

Article 9. TAXATION ON THE BASIS OF CITIZENSHIP

This article provides that a State may tax property in accordance with its laws in the case of an estate of a decedent who is a citizen of that State at his death, notwithstanding that the property is not property enumerated in Article 6 or 7 or that the decedent was not domiciled in the State. This article preserves the right of the United States and the Netherlands to tax the worldwide estates of their citizens. The Netherlands may tax its citizens under it even though its tax is based on constructive domicile in the Netherlands (under the Dutch 10-year rule) rather than citizenship and the decedent is treated under Article 4 of the Convention (by reason of Article V of the Protocol) as not having been domiciled in the Netherlands.

Article 10. EXEMPTIONS

Paragraph (1) of this article provides for an exemption which roughly corresponds to the marital deduction provided in section 2056 of the Internal Revenue Code of 1954. The exemption applies to separate property which passes to the surviving spouse from a decedent, if the decedent was a domiciliary or citizen of the United States, and if the property may be taxed by the Netherlands solely by reason of Article 6 or 7 (i.e., is not taxable on the basis of the decedent's citizenship or domicile in the Netherlands). Such property shall be included in the estate subject to the Netherlands transfer duty only to the extent that its value exceeds 50 percent of the value of all property included in the Dutch estate. The value of the Dutch estate and of property which passes to the surviving spouse is determined after taking into account any applicable deductions but, as provided in Article VII of the Protocol, before allowance of the $30,000 exemption provided in paragraph (2) of this article.

The exemption described above is inapplicable during any period when the laws of the United States make the tax imposed by it with respect to estates of nonresident aliens substantially less favorable in relation to the tax imposed by it with respect to estates of its citizens of domiciliaries than is the case when the Convention was signed (July 15, 1969).

Paragraph (2) of this article provides that where a State may tax solely by reason of Article 6 or 7 that State shall not impose any tax if the aggregate value of the property included in the estate subject to its tax (after taking into account any applicable deductions and after taking into account the marital exemption, but before taking into account any other exemptions) does not exceed $30,000. If the value so determined exceeds $30,000, the tax imposed shall not exceed the lesser of 50 percent of the value in excess of $30,000 or the amount of the tax determined in accordance with the provisions of the Convention (taking into account any exemptions allowable under the laws of the State).

This exemption relieves an estate of $30,000 or less, which is not taxable by the Netherlands under Article 8 or 9, of liability for Dutch tax. It applies to a lesser extent, by reason of its 50 percent limitation and the 6 percent Netherlands rate, to estates of up to $34,090. By operation of section 2106(a)(3) of the Internal Revenue Code of 1954 and Article 10 (2)(b), the United States provides a flat $30,000 exemption with respect to its tax on estates not taxable by the United States under Article 8 or 9.

The application of the provisions of Article 10 may be illustrated by the following examples:

Example (1). D, a U. S. citizen and domiciliary, owned Dutch immovable property (his only Dutch property) valued under Dutch law at $200,000 and subject to a $150,000 mortgage. D devised the property, which was not community property, to W, his wife. Under Dutch law, the mortgage is entirely deductible from the Dutch property in determining the taxable estate. Accordingly, the net Dutch estate is $50,000. Under Article 10(1), a marital exemption of 50 percent of that amount, or $25,000, is allowable. The $30,000 exemption eliminates the remaining $25,000 of the estate so there is no taxable estate for purposes of the Dutch transfer duty.

Example (2). Assume the same facts as in example (1) except that D owned additional immovable property in the Netherlands (unmortgaged) valued at $75,000 which he devised to S, his son. The marital exemption allowable under Article 10(1) in this case would be the full $50,000 net value of property passing to W since this amount does not exceed 50 percent of $125,000 (the net value of the total Dutch estate). The exemption of Article 10(2) is inapplicable in this case because the Dutch taxable estate of $75,000 (after allowance of the marital exemption) exceeds $30,000, and the transfer duty on the estate (6 percent x $75,000 = $4,500) is less than 50 percent of the difference between the Dutch taxable estate ($75,000) and $30,

Article 11. CREDITS

This article provides that a State taxing on the basis of the decedent's citizenship or domicile is to allow a credit for taxes paid to the other State with respect to property taxable by that other State in accordance with Article 6 or 7. For this purpose, reference to property taxable by a State in accordance with Article 6 or 7 includes property which would be taxable by that State under the terms of one of those articles if taxable by the State under its laws, whether or not it is also taxable on the basis of the decedent's domicile or citizenship at death.

Subject to other limitations described herein, if both States tax a decedent's worldwide estate, then with respect to property not taxable by either in accordance with Article 6 or 7:

(1) If at death the decedent was a citizen of only one State, was a domiciliary of the other State, and under

the domestic law of such other State had been domiciled therein in the aggregate 7 or more years during the 10-year period ending at his death, then the State of which he was a citizen shall allow a credit equal to the amount of the tax imposed by such other State;

(2) If at death the decedent was a citizen of both States and a domiciliary of one State, then the State of which he was not a domiciliary shall allow a credit equal to the amount of the tax imposed by the other State; or

(3) In other cases, each State shall allow a credit in the amount which bears the same proportion to the amount of its tax attributable to such property, or to the amount of the other State's tax attributable to the same property, whichever is less, as the former amount bears to the sum of both amounts.

The first situation described above provides for the State of citizenship to yield priority of taxation (as a correlative to the 7-out-of-10-year domiciliary rule in Article 4). The second situation provides for priority of taxation to the State of which the decedent was both a citizen and a domiciliary. The third situation provides for a splitting of the credit. The most common case expected to come within the latter situation is that of a decedent who was a citizen of one State who was permanently living ("domiciled") in the other State for less than 7 years at his death.

Notwithstanding these provisions the total amount of all credits allowed by a State pursuant to the Convention or under its laws or other conventions with respect to all property in respect of which a credit is allowable under this Convention shall not exceed that part of the tax of the crediting State which is attributable to such property. For purposes of this determination, all property for which credit is given under the Convention is aggregated and not treated individually. See example (5) hereinafter. This limitation is not applicable to the third situation described above since that situation has such a limitation built into its credit formula, and since inclusion in the computation of property to which that provision applies might result in excessive credits for other property.

The article provides that in determining the amount of the tax imposed by a State with respect to or attributable to property there shall be substracted from the gross tax so imposed all credits allowed by the State with respect to the property except credits which are allowable under this article.

No credit is to be finally allowed until the tax for which the credit is allowable (reduced by any credit allowable with respect thereto) has been paid. Credits for the tax imposed by the other State will be tentatively allowed pending proof of payment thereof.

Any credits under this article are in lieu of any credits authorized by the respective laws of the States for the taxes of the other State.

The operation of Article 11 may be illustrated by the following examples (in which references to domicile assume resolution of possible double domicile under Article 4):

Example (1). D, a citizen and domiciliary of the Netherlands, owned immovable property in the United States, immovable property in the Netherlands, and corporate stock (property not described in Article 6 or 7). The Federal estate tax imposed with respect to the immovable property in the United States is $11,000, and the portion of the Netherlands' succession duty attributable to that property is $10,000. Under Article 11(1), the Netherlands must allow a credit of $11,000 on its succession duty. However, under Article 11(3) the amount of the credit is reduced to $10,000, the succession duty attributable thereto.

Example (2). D, a citizen of the United States and domiciliary of the Netherlands for 12 years at his death, owned immovable property in the United States, the Netherlands, and Country X, and stock of three corporations. The amount of the Federal estate tax imposed with respect to each piece of immovable property and each block of stock is $11,000, while the succession duty with respect to each is $10,000. Country X imposed $8,000 in death taxes with respect to the immovable property therein, for which the United States and the Netherlands each gave a full tax credit under their internal laws. In addition, under Article 11(1) the United States must allow a credit of $10,000 for the Netherlands tax with respect to immovable property in the Netherlands, and under Article 11(2)(a) credits of $30,000 for the Netherlands tax with respect to the three blocks of stock and $2,000 ($10,000 - $8,000) for the residual Netherlands tax on the immovable property in Country X, or total credits under Article 11 of $42,000. Under Article 11(1) the Netherlands must allow a credit for the United States tax with respect to the immovable property in the United States, a credit which under Article 11(3) shall be limited to the amount of Netherlands tax attributable to the property, or $10,000.

parcels because it was left to a charity, but $8,000 Federal estate tax was paid with respect to the other. Under Article 11(3), the amount of the credit to be allowed by the United States for Netherlands tax is limited to $8,000, the amount of the Federal estate tax attributable to all property taxable by the Netherlands under Article 6 or 7. The fact that the Dutch tax with respect to the only property that the United States taxed is less than $8,000 ($5,000) is irrelevant since the credit computations are based upon the total tax of the other State with respect to all property for which credits are allowable.

Example (6). D, a domiciliary and citizen of the United States, owned immovable property in the United States valued at $50,000 and subject to a mortgage of $30,000. He also owned unmortgaged immovable property in the Netherlands valued at $10,000 and corporate stock valued at $40,000. The administration expenses of his estate totalled $10,000. Under Article 5(1), the Netherlands allocates deductions according to its own law for purposes of the imposition of its transfer duty. Under this principle the Netherlands would impose a transfer duty

Example (3). The facts are the same as in example (2) except that D was a citizen of both the United States and the Netherlands and a domiciliary of the Netherlands for only 6 months at his death. The credits allowable under Article 11(1) are unaffected by these changes, and the credit allowable by the United States under Article 11(2)(a) is replaced by a credit in an equal amount allowable by the United States under Article 11(2)(b).

Example (4). The facts are the same as in example (2) except that D had been domiciled in the Netherlands for 4 years at his death. The credits allowable under Article 11(1) are unaffected by this change, but the credit allowable by the United States under Article 11(2)(a) is no longer applicable. Instead, under Article 11(2)(c) the United States must allow a credit for $16,941 $(\$32,000 \text{ x } \frac{\$36,000}{\$36,000 + \$32,000})$ and the Netherlands must allow a credit for $15,059 $(\$32,000 \text{ x } \frac{\$32,000}{\$32,000 + \$36,000})$.

Example (5). D, a domiciliary and citizen of the United States, owned two parcels of immovable property in the Netherlands. Transfer duties in the amount of $5,000 were paid to the Netherlands with respect to each parcel. No Federal estate tax was paid with respect to one of the on the full $10,000 value of the Dutch immovable property, unreduced by any deductions. Under Article 11, the United States in determining for credit purposes the amount of its tax attributable under its law to the Dutch immovable property would allocate $4,000 of the debts and administration expenses ($40,000 total deductions x $\frac{\$10,000 \text{ value of Dutch property}}{\$100,000 \text{ value of all property}}$) to the Dutch immovable property. Accordingly, the United States would limit its credit for the Dutch transfer duty to the Federal estate tax attributable to $6,000 ($10,000 minus $4,000 debts and administration expenses).

Example (7). The facts are the same as in example (6) except that D was a domiciliary of the Netherlands for 15 years at his death. In this case, under Article 11(1), the Netherlands will allow a credit for the lesser of the Federal estate tax and the Dutch succession duty attributable to the net value of the immovable property in the United States of $20,000 ($50,000 minus $30,000) and the United States would again allow a credit for the lesser of the two taxes attributable to $6,000. In addition, under Article 11(2)(c) each State will allow a proportionate credit with respect to the corporate stock.

Article 12. LIMITATION ON CLAIMS FOR CREDIT OR REFUND

This article imposes a limitation on the period of time during which claims for credit or refund may be made. Under this provision the period for making such a claim is longer than the period under the Internal Revenue Code of 1954, but only if the claim is founded on the provisions of the Convention. Such a claim may be made any time before the expiration of the latest of:

(1) The time for making a claim for refund of tax under the laws of the State to which a claim for credit or refund is made;

(2) Five years from the date of the death of the decedent in respect of whose estate the claim is made; or

(3) One year after final determination (administrative or judicial) and payment of tax for which any credit under Article 11 is claimed, provided that the determination and payment are made within 10 years of the date of death of the decedent.

The article provides that any refund based on the provisions of the Convention is to be made without interest.

Article 13. COMPETENT AUTHORITIES

This article provides for the consideration by the competent authorities of the States of cases in which a person considers that taxation not in accordance with the Convention will result for him from the actions of one or both of the States. It provides further that the competent authorities shall endeavor to resolve any difficulties or doubts about the interpretation or application of the Convention. It also provides that each competent authority may prescribe such regulations and forms as may be necessary or appropriate to give effect to and implement the provisions of the Convention.

Article 14. EXCHANGE OF INFORMATION

This article provides for a system of administrative cooperation between the competent authorities of the two States. It provides for the furnishing of such information as is pertinent to carrying out the Convention or preventing fraud or fiscal evasion (including information with respect to property which is exempt under Article 8 from the tax of the furnishing State). However, information is not required of a competent authority with respect to exempted property if the information is not in the possession of that State. The furnishing of information may be either on a routine basis or on request. Information which is provided is to be treated as secret.

The article does not impose on the States the obligation to carry out administrative measures at variance with the laws or administrative practice of that or the other State, to supply particulars which are not obtainable under the laws or in the normal course of the administration of that or the other State, or to supply information which would disclose any trade, business, industrial, commercial, or professional secret or trade process, or information the disclosure of which would be contrary to public policy.

Article VIII of the Protocol provides that it is understood that the Netherlands cannot disclose information obtained from banks and certain similar institutions, including insurance companies. This results from the treatment under Dutch law of such information as confidential. This exception does not apply if the bank or other institution is the executor or administrator of the estate.

Also, it has been agreed that there will be an exchange between the competent authorities containing the substance of the following provision:

It is understood that Article 14 of the Convention does not require that a State furnish information to the other State with respect to securities issued by residents (corporate or otherwise) of that other State (other than securities taxable by that other State under Article 7) included in the estate of a domiciliary of the first-mentioned State who is not a citizen of that other State.

Article 15. DIPLOMATIC AND CONSULAR OFFICIALS

This article preserves the existing fiscal privileges of diplomatic and consular officials and officials of international organizations. It provides further that the right to tax estates of such persons shall be reserved to the country in whose service the persons are employed and that such persons shall not be deemed to be domiciled in the receiving State. Accordingly, diplomats of a "third country" domiciled in one of the States, but exempt from tax therein because of such status, cannot assert rights under the Convention as domiciliaries with respect to taxes imposed by the other State.

Article 16. ENTRY INTO FORCE

This article and Article X of the Protocol provide for the ratification of the Convention and Protocol and for the exchange of instruments of ratification as soon as possible. The Convention and Protocol will enter into force on the date on which the instruments of ratification are exchanged and their provisions will apply to estates of persons dying on or after that date.

Article 17. TERRITORIAL EXTENSION

This article provides a method for extending the Convention to the countries of Surinam or the Netherlands Antilles and to all or any of the territories for whose international relations the United States is responsible (such as Puerto Rico), if the country or area concerned imposes a tax substantially similar in character to those to which the Convention applies. The procedure prescribed is an exchange of notes through diplomatic channels. The notes are subject to ratification, however, and the instruments of ratification must be exchanged.

Unless otherwise specified in the notice of termination referred to in Article 18, the termination of the Convention will not also terminate the application of the Convention to any country or area to which it has been extended.

Article 18. TERMINATION

The Convention will continue in effect indefinitely, but may be terminated by either State as of the end of any calendar year, providing that the termination date does not occur earlier than 5 years after the effective date of the Convention. The termination may be effected by giving at least 6 months' notice in writing of the termination. If the Convention is terminated, the termination shall be effective with respect to estates of decedents dying after the expiration of the calendar year with respect to the end of which the Convention has been terminated.

Article IX of the Protocol provides that if the effects of the Convention are substantially altered as a result of changes made in the laws of either State, then at the request of either State, the two States shall consult together with a view to making appropriate modifications in the Convention.

PRIME MINISTER

Port of Spain,
Trinidad.
9 January, 1970.

Sir,

I have the honour to refer to your letter of the 9 January which reads as follows:

> "I have the honor to refer to the income tax treaty between the Governments of Trinidad and Tobago and the United States, which has been signed today. This treaty makes no provision for special recognition, in the calculation of United States tax on income derived from United States direct investment in Trinidad and Tobago, of tax incentives offered by Trinidad and Tobago to attract such investment.
>
> My Government recognizes the value to Trinidad and Tobago of increased United States investment in your country and the importance which your Government places on promoting such investment through the tax treaty mechanism. I want, therefore, to assure that my Government is prepared, at an early date, to resume discussions with representatives of Trinidad and Tobago with a view toward reaching agreement on a supplementary protocol that would provide a tax impetus to United States direct investment in Trinidad and Tobago."

I have the honour to inform you that my Government accepts the above mentioned assurances and looks forward to the early resumption of discussions on this subject.

Accept, Sir, the renewed assurances of my highest consideration.

Eric Williams

Prime Minister.

The Honourable J. Fife Symington Jr.,
Ambassador Extraordinary and Plenipotentiary,
Embassy of the United States of America,
PORT-OF-

CERTIFICATION

TRINIDAD AND TOBAGO)
CITY OF PORT OF SPAIN) SS
EMBASSY OF THE UNITED STATES OF AMERICA)

I, Robert J. MacQuaid, Consul of the United States of America at Port of Spain, Trinidad, West Indies, duly commissioned and qualified, do hereby certify that the attached copy of Embassy Note No. 1 of January 9, 1970 to Dr. the Right Honourable Eric Williams, Prime Minister of Trinidad and Tobago, signed by J. Fife Symington, Jr., American Ambassador, is a true and faithful copy of the original.

IN WITNESS WHEREOF I have hereunto set my hand and affixed the seal of the Embassy at Port of Spain, Trinidad, West Indies, this 9th day of January, 1970.

Consul of the United States of America

Port of Spain, January 9, 1970

No. 1

Sir:

I have the honor to refer to the income tax treaty between the Governments of Trinidad and Tobago and the United States, which has been signed today. This treaty makes no provision for special recognition, in the calculation of United States tax on income derived from United States direct investment in Trinidad and Tobago, of tax incentives offered by Trinidad and Tobago to attract such investment.

My Government recognizes the value to Trinidad and Tobago of increased United States investment in your country and the importance which your Government places on promoting such investment through the tax treaty mechanism. I want, therefore, to assure you that my Government is prepared, at an early date, to resume discussions with representatives of Trinidad and Tobago with a view toward reaching agreement on a supplementary protocol that would provide a tax impetus to United States direct investment in Trinidad and Tobago.

Accept, Sir, the renewed assurances of my highest consideration.

J Fife Symington, Jr,

Dr. the Right Honourable Eric Williams
Prime Minister
Trinidad House

October 6, 1970

Technical Explanation
of
Proposed U.S.-Trinidad and Tobago Income Tax Convention
Signed January 9, 1970

Article 1. TAXES COVERED

This Article designates the taxes of the respective States which are the subject of the proposed Convention. With respect to the United States, the taxes included are the United States Federal income taxes imposed by the Internal Revenue Code. This includes, for example, the surtax and would also include such taxes as the temporary surcharge which was in force from 1968 to 1970. However, the Convention is not intended to apply to taxes which are in the nature of a penalty such as the taxes imposed under section 531 (accumulated earnings tax) and section 541 (personal holding company tax) of the Internal Revenue Code. These two taxes were expressly excluded to avoid uncertainty as to their status.

With respect to Trinidad and Tobago the taxes included are the corporation tax and the income tax.

Pursuant to paragraph (2) of this Article the proposed Convention would also apply to taxes substantially similar to those enumerated which are imposed, in addition to or in place of the existing income taxes, after the date of signature of this Convention (January 9, 1970).

For purposes of Article 6 (Nondiscrimination) the Convention applies to taxes of every kind which are, or may be, imposed by the respective States, at the National, State, or local level.

Article 2. GENERAL DEFINITIONS

This Article sets out definitions of certain of the basic terms used in the proposed Convention and sets forth rules for determining fiscal domicile or residence for purposes of the proposed Convention. A number of important terms, however, are defined elsewhere in the Convention.

Any term used in this Convention which is not defined therein shall, unless the context otherwise requires, have the meaning which it has under the laws of the State which is imposing the tax. The proposed Convention also provides a procedure under which a common definition may be arrived at by the competent authorities of the United States and Trinidad and Tobago, in order to prevent double taxation or further any other purpose of this Convention, if the definition of such term under the respective internal laws of the States differs or if the term is not readily definable under the laws of one or both of the States. The common meaning is to be arrived at by means of the mutual agreement procedure which is described in Article 23 (Mutual Agreement Procedures) of the proposed Convention. While treaties in the past did not specify the power of the competent authorities to resolve such differences in definitions, this power is nevertheless inherent in the authority set forth in the mutual agreement article of these treaties to resolve "difficulties or doubts."

This Article defines geographical Trinidad and Tobago and geographical United States to include their respective continental shelves. The addition of a definition of the continental shelf is intended to clarify what the Contracting States consider to be included within their respective jurisdictions to tax. The United States continental shelf is defined as the seabed and subsoil of the adjacent submarine areas beyond the territorial sea over which the United States exercises exclusive rights in accordance with international law for the purpose of exploration and exploitation of the natural resources of such area, but only to the extent that the person, property, or activity to which this Convention is being applied is connected with such exploration or exploitation. For example, the income earned by a ship and its employees engaged in taking seismograph soundings on the United States continental shelf will be treated for tax purposes the same as the income from a comparable activity on the land of one of the States of the United States. A comparable definition is used in the case of Trinidad and Tobago. The definition of the continental shelf in the case of the United States only includes the continental shelf surrounding the 50 States. Thus, for example, the continental shelf surrounding Puerto Rico is not included. If the Treaty were extended beyond the 50 States and the District of Columbia (see Article 29 - Extension of Convention) the continental shelf of the extended areas would also be covered. While the territorial sea is part of the United States and Trinidad and Tobago for all purposes, the defi continental shelf is only part of the United States or Trinidad and Tobago, as the case may be, in limited situations. It is included only to the extent that a person or property or activity to which the Convention is being applied is connected with exploration or exploitation of the continental shelf. The phrase "connected with" does not require physical attachment to the continental shelf to be within the scope of the definition.

This Article also sets forth rules for determining residence for purposes of the proposed Convention. Residence is important because, in general, only a resident of the Contracting States may qualify for the benefits of the Convention.

A resident of one of the Contracting States is a corporatio of that State (as defined in this Article) or any person (other than a corporation) who is a resident of that State for purposes of its tax. Specifically in the case of the United States the term "a resident of the United States" means a United States corporation and any person (except a corporation or any other entity treated as a corporation for United States tax purposes) resident in the United States for purposes of its tax. The parenthetical language in the definition of a resident of the United States is intended to make clear that a foreign corporation, or other entity treated as a foreign corporation for United States tax purposes, which is a resident of the United States for certain purposes of its income tax law is not, under the Convention, a resident of the United States. A similar rule was needed in the case of Trinidad and Tobago.

In the case of the United States, the definition provides that a partnership, estate, or trust is treated as a resident only to the extent that the income derived by such person is subject to United States tax as the income of a resident. This language, although different from the Income Tax Convention between the United States and France, signed July 28, 1967, is intended to achieve the same result. Under United States law, a partnership is never, and an estate or trust is often not, taxed as such. Under the proposed Convention, in the case of the United States, income received by a partnership, estate, or trust will not qualify for the benefits of the Convention unless such income is subject to tax in the United States. Thus, in effect, the status of income which is subject to tax only in the hands of the partners or beneficiaries will be determined by the residence of such partners or beneficiaries. With respect to income taxed in the hands of the estate or trust, the residence of the estate or trust is determinative. This provision is reciprocal because of the presence of a similar problem under Trinidad and Tobago law.

Unlike our other conventions, the proposed Convention with Trinidad and Tobago does not provide a mechanism for determining a single residence fcrindividuals who are treated by each State as being respectively resident therein. In addition, corporation could be treated by both States as being resident therein under the definitions set forth in the treaty. Dual residency in the case of corporations is a relatively easy situation for them to avoid.

This Article also provides that the terms "paid," "distributed," and "received" when applied to income shall include amounts which are "credited." This provision, which has not appeared in previous income tax conventions to which the United States is a party, is intended to make clear that a dividend paid by a Trinidad and Tobago corporation includes an amount credited by such corporation.

Article 3. GENERAL RULES OF TAXATION

The general rules of taxation applicable under the proposed Convention are as follows:

A resident of one State may be taxed by the other State only on income from sources within that other State (including industrial or commercial profits attributable to a permanent establishment located in that other State), subject to the limitations set forth in this Convention. The jurisdictional rules of the proposed Convention parallel those set forth in section 872(a) of the United States Internal Revenue Code, relating to nonresident alien individuals, and section 882(b), relating to foreign corporations engaged in trade or business in the United States, as amended by the Foreign Investors Tax Act of 1966.

The proposed Convention contains the general rule (also found in our new French Convention) that the Convention does not affect in any manner any exclusion, exemption, deduction, credit, or other allowance now or hereafter accorded by the laws of a State in the determination of a tax imposed by that State, or by any other agreement between the States. Even though the OECD Model Convention does not contain a comparable provision,this rule reflects the well-established principle that the Convention will not have the effect of increasing the tax burden on residents of the signatory countries. This rule represents the position of the United States under all conventions to which it is a party except that to the extent a convention specifically provides, it may be necessary to waive certain rights as a condition to claiming more advantageous treaty benefits.

The proposed Convention also contains the traditional savings clause under which the United States reserves the right to tax its citizens and residents as if the Convention had not come into effect. However, the savings clause does not apply in several cases in which its application would contravene policies reflected in the Convention. Thus, the savings clause does not affect the provisions with respect to the foreign tax credit, nondiscrimination, or tax deferral for technical assistance. Although the provisions dealing with the mutual agreement procedure are not specifically excepted from the savings clause, agreements made by the competent authorities may nevertheless inure to the benefit of a citizen or resident of the United States or a resident of Trinidad and Tobago. Moreover, the savings clause will not deny the benefits of the Convention to governmental employees or teachers or students unless such individua are citizens of the United States or have immigrant status in the United States. The OECD Model Convention does not contain a savings clause because it is oriented toward the residence principle of taxation.

This Article also provides that any income from sources within a State to which the Convention is not expressly applicable will be taxable by that State in accordance with its own law. For example, because income from prizes or awards is not covered by the Convention, such income will be taxed in accordance with the internal law of the State from which such income is derived. The OECD Model Convention differs on this point and provides that income which is not expressly mentioned will be taxable only in the State of residence. In any event it should be noted that the proposed Convention specifically covers most types of income.

Another general rule of taxation is that subject to the provisions of paragraph (4) a State may tax a resident of that State whether or not that person is also a resident of the other State.

Article 4. RELIEF FROM DOUBLE TAXATION

Under the existing Convention, the United States provides relief from double taxation by allowing a credit for Trinidad and Tobago tax subject to the provisions of the law of the United States.

The proposed Convention employs the same method of avoiding double taxation in providing that subject to the provisions of United States law in effect for the taxable year (which do not affect the general principle of the Article) credit will be allowed to a United States citizen or resident for Trinidad and Tobago tax paid but not in excess of the portion of United States tax which net income from Trinidad and Tobago sources bears to total net income. Except for the special source rules provided by the Convention, this provision does not add to the rights that a United States citizen or resident has to the foreign tax credit, including his right under current law to elect the overall limitation, but is for the purpose of giving treaty recognition to such rights. Modifications in United States law after the effective date of the Convention which concern the foreign tax credit will be applicable with respect to Trinidad and Tobago source income if such modifications do not contravene the general principles of the Convention.

With respect to the treatment of dividends which are receive by a United States corporation from a corporation resident in Trinidad and Tobago in which such United States corporation owns at least 10 percent of the voting power, the proposed Convention differs in one respect from the provisions which would be applicable to such dividend under the Internal Revenue Code. The proposed Convention provides that in the case of such a dividend such United States corporation must include in gross income the amount of Trinidad and Tobago tax which the Trin and Tobago corporation paid on the profits out of which such dividend is paid and which the recipient corporation is "deemed" to have paid. Thus, the dividend must be grossed up. Under the Internal Revenue Code, however, a dividend does not have to be grossed up in order for the recipient United States corpor to claim a deemed paid credit, if the dividend is paid by a less developed country corporation and most Trinidad and Tobago corporations will be considered less developed country corporati Inasmuch as the computation of the deemed paid tax credit without gross-up under the Internal Revenue Code will often produce a more favorable result than the gross-up computation under the proposed Convention, it may be to the advantage of United Sta corporations in some cases to use the Code rules in computing the deemed paid credit. Of course, in these cases United States corporations may continue to use the Code rules rather than thos found in the proposed Convention. In a case where the taxpayer follows the Code rules on gross-up, it may nevertheless use the same rules set forth in Article 5 of the proposed Convention.

The proposed Convention provides that Trinidad and Tobago will allow its residents a credit for the amount of income taxes paid to the United States. In the case of a Trinidad and Tobago corporation which receives a dividend from a United States corporation in which such recipient corporation controls, directly or indirectly, at least 10 percent of the voting power, such corporation will be allowed a credit against its Trinidad and Tobago tax for the amount of the United States tax paid on the coprorate profits out of which such dividend is paid. This credit is, of course, in addition to the credit allowed for the taxes paid to the United States by the Trinidad and Tobago corporation. Under the internal law of Trinidad and Tobago the indirect credit would be allowed only if the recipient corporation owned at least 25 percent of the voting stock in the payor United States corporation. The foreign tax credit Trinidad and Tobago will allow is subject to a per-country limitation.

Article 5. SOURCE OF INCOME

This Article sets forth in a single provision all of the various rules which are to be applied to determine the source of the different kinds of income covered by the treaty: dividends, interest, royalties, income from real property, including gains derived from the sale of such property, and compensation for personal services. These rules affect the application of Article 3 (General Rules of Taxation) and Article 4 (Relief from Double Taxation).

The source of any kind of income not covered by the treaty shall be determined under the internal law of the two States. In the case of different source rules applicable to an item of income the competent authorities of the two States under the mutual agreement procedure may establish a common source for the item of income.

Dividends paid by a corporation of one State are treated as from sources within that State and dividends paid by any other corporation are treated as from sources outside that State. However, dividends paid by a Trinidad and Tobago corporat shall be treated as income from sources within the United States if, for the 3-year period ending with the close of its taxable year preceding the declaration of such dividend (or for such portion of that period as the corporation has been in existence) such corporation (a) had a permanent establishment in the United States, and (b) derived 50 percent or more of its gross income from industrial or commercial profits effectively connected with the industrial or commercial activity engaged in through such permanent establishment. The provision was included to offset a provision in Trinidad and Tobago law which imposed a withholding tax on remitted profits of a United States permanent establishment in Trinidad and Tobago. However, the amount of the dividend to be treated as from United States sources under this provision is not to exceed an amount which bears the same ratio to the entire dividend as the gross income of the corporation for such period which is effectively connected with the commercial or industrial activity engaged in through such permanent establishment within the United States bears to its gross income from all sources. A further limitation is that in no case shall the amount of such dividend which is treated as income from sources within the United States exceed the net amount of money or money's worth transferred from such permanent establishment during such period. This rule as applied to dividends paid by a Trinidad and Tobago corporation conforms to United States statutory law except that, under section 861(a)(2)(B) of the Internal Re enue Code, there is no limitation regarding the net amount f money or money's worth transferred. This limitation which is si ilar to a provision in the laws of Trinidad and Tobago is i tended to insure that the United States will not treat divic nds paid by a Trinidad and Tobago corporation as income from United States sources to the extent the profits of a permanent establishment which such corporation maintains in the United States are retained and reinvested.

Interest paid by that State, including any local government within such State, or by a resident of such State is treated as from sources within that State. Interest paid by any other person will be treated as from sources outside that State. However, interest paid by a resident of any State with a permanent establishment in any other State, directly or indirectly, out of the funds of such permanent establishment will be treated as income from sources within the State where such permanent establishment is located. The rules set forth above in the first two sentences correspond generally to the Internal Revenue Code provision dealing with interest (other than interest on deposit with persons carrying on the banking business). The exception to this general rule, set forth above in the third sentence, is not contained in the Internal Revenue Code but is substantially similar to the same rule in the United States-Belgian Income Tax Convention signed July 9, 1970.

Royalties paid for the use of,or the right to use, property described in paragraph (4) of Article 14 (Royalties) in a State are treated as income from sources within that State.

Income from real property and royalty income from the operation of mines, quarries, or other natural resources are to be treated as income from sources within the State in which such property is located.

Income from the rental of tangible personal property is to be treated as income from sources within the State in which such property is located when rented. Notwithstanding some minor differences in terms compared with like provisions in recent treaties, this language is intended to reflect the rule of the Internal Revenue Code and recent treaties that the source of such rental income is the State in which the property is located during the period of the lease.

Compensation received by an individual for his performance of personal services and income received by a person from the furnishing of personal services of another are to be treated as income from sources within the State in which such services are performed. If services are performed partly within and partly outside any State, income from the performance or furnishing of such services shall be treated as income from sources partly within and partly outside that State. Compensation for personal services. and private pensions and annuities paid in respect of such services, performed aboard ships or aircraft operated in international traffic by a resident of a State and, in the case of the United States, registered in the United States, provided the services are performed by a member of the regular complement of the ship or aircraft,are to be treated as income from sources within that State.

Income from the purchase and sale of personal movable property is to be treated as income from sources within the State in which such property is sold. This rule conforms to the rule set forth in section 861(a)(6) of the Internal Revenue Code.

Notwithstanding the rules contained in paragraphs (1) through (7), industrial and commercial profits attributable to a permanent establishment which the recipient, being a resident of one State has in the other State, including income dealt with in the articles pertaining to dividends, interest, royalties, and income from real property if from rights or property which are effectively connected with such permanent establishment, shall be treated solely as income from sources within that other State. The factors taken into account in determining whether such effective connection exists will include whether the income is derived from property used, or held for use,in the conduct of the commercial or industrial activities carried on through such permanent establishment were a material factor in the realization of the income. As previousl noted under Article 3 (General Rules of Taxation), this source rule conforms to United States policy governing the taxation of business profits and investment income as expressed in the Foreign Invesotrs Tax Act of 1966. Such policy is also reflected in the recent French Convention as well as the protocols to the German, Netherlands, and United Kingdom Conventions.

Several of the source rules set out in this Article differ to some degree from those existing in the Internal Revenue Code. Since Article 3 (General Rules of Taxation) provides that the Convention will not increase a person's United States tax, a taxpayer is entitled to use the more beneficial of the Code or Convention rules in calculating his income for United States tax purposes, or in the case of a citizen or resident of the United States, his foreign tax credit. The rule on interest in this Article permits Trinidad and Tobago, under the proper circumstances, to impose a tax on any interest paid by a permanent establishment in Trinidad and Tobago of a Unit^d States corporation. While the rule appears to be fully reciprocal, the United States will not, because of section 861(a)(1)(B) of the Code, impose on nonresident aliens and foreign corporations a tax on interest paid by a resident of the United States unless such resident derives 20 percent or more of its gross income from United States sources for the 3-year period ending with the close of the taxable year of such resident preceding the payment of such interest.

It should also be noted that the source rules do not serve to extend the benefits of this proposed Convention to persons other than residents of the two States. Generally, the rules are only applicable for taxing residents of either State and, therefore, are not applicable in determining source of income of residents or other States, although the income of such other residents is of a type referred to in this Article.

Article 6. NONDISCRIMINATION

The proposed Convention bans discrimination by one State against the nationals of the other State or of a permanent establishment of nationals or corporations of the other State.

Thus, for example, a national of Trinidad and Tobago who is a resident of the United States and who otherwise meets the requirements specified in section 911 of the Internal Revenue Code would under this Article of the proposed Convention be eligible for the benefits of section 911 although such national is not a citizen of the United States.

This Article provides, however, that a State may accord special treatment to its own residents on the basis of civil status or family responsibility. This Article also provides that Trinidad and Tobago is not prohibited from imposing a branch profits tax in accordance with paragraph (5) of Article 12 (Dividends) and the United States from imposing a comparable tax burden on the income of a permanent establishment maintained by residents of Trinidad and Tobago in the United State

The ban on discrimination extends to all taxes without regard to subject matter and whether imposed at the national, State, or local level.

This Article is substantially similar to the nondiscriminati Article of the OECD Model Convention except that the Model includes a provision concerning Stateless persons which has been omitted from the proposed Convention.

Article 7. TAX DEFERRAL FOR TECHNICAL ASSISTANCE

This Article provides for a reciprocal tax deferral which will be applicable when patents, processes, know-how and similar items, and ancillary technical services rendered in connection with the furnishing of such property or information, are provided by a resident of one State to a corporation of the other State in return for stock of the corporation of such other State. Under paragraph (3) of Article 28 (Effective Dates and Ratification) this Article shall only be effective with respect to stock received on or after the date the proposed Convention was signed (January 9, 1970).

Under this provision, a resident of one of the States may elect not to include in income, both for United States and Trinidad and Tobago tax purposes, any amount otherwise includible by reason of the receipt of stock in return for the enumerated items of property, information, or ancillary services. In order to qualify for the deferral, such resident must receive stock of a corporation of the other State as consideration for providing to such corporation, for use in connection wtih a trade or business actively conducted in that other State by such corporation, any of the following properties, information, or services:

(1) Any patent, invention, model, design, secret formula or process, or similar property right;

(2) Information concerning industrial, commercial or scientific knowledge, experience, or skill; or

(3) Technical, managerial, engineering, architectural, scientific, skilled, industrial, commercial, or like services which are ancillary and subsidiary to the transfer of the property rights referred to in (1) or any information referred to in (2).

Where such an election is made, expenses allocable to amounts excluded from income may not be deducted currently. Where the stock received is later disposed of, the amount originally excluded will then be included in income in the manner in which it would have been included upon receipt of such stock. Where the stock is sold for less than the amount originally excluded, the amount actually received on the sale is included in income as it initially would have been in the absence of this deferral provision. When the stock is disposed of, deductions previously disallowed because allocable to excluded amounts will be allowed and any gain upon such disposition will be determined as if the gain had been included in income, and the deductions allowed, upon original receipt of the stock.

This provision is made subject to regulations to be issued by both parties to the treaty.

In the case of the United States the Secretary of the Treasu or his delegate may prescribe such regulations as are necessary to effectuate the provisions of this Article and to further define and determine the terms, conditions, and amounts referred to in this Article. In the case of Trinidad and Tobago the Minister of Finance or his authorized representative may prescribe such regulations as are necessary to effectuate the provisions of this Article and to further define the terms, conditions, and amounts referred to in this Article. In particular, the Minister of Finance or his authorized representative is specifically authorized to prescribe by regulation standards for determining whether services referred to in paragraph (1) of this Article are ancillary and subsidiary to the property rights or information referred to in that paragraph.

In such regulations, the Minister of Finance could provide that this provison will only apply to an equity interest in a Trinidad and Tobago corporation issued to the United States shareholder in conformance with the Trinidad and Tobago law dealing with the allowable extent of foreign equity interests in Trinidad and Tobago corporations.

Authorization is granted to each State to require, by regulations. that a portion of the stock received in return for the enumerated property, information, or services be deposited with a designated bank or other depository for the purpose of assuring collection of any taxes payable upon its disposition.

Under this provision, a United States corporation can make a transfer of property to a Trinidad and Tobago corporation in exchange for the stock of that Trinidad and Tobago corporation, without regard to the provisions of section 351 of the Code, and elect not to include in income for United States tax purposes any gain otherwise recognized (whether under sections 1231 or 1249 of the Code) as a result of such transfer. In addition, that United States corporation can furnish "know-how" to the Trinidad and Tobago corporation and obtain the deferral for United States tax purposes without initially having to consider whether such "know-how" constitutes property for purposes of the application of section 351 of the Code. It can also provide the enumerated services, to the extent that they are rendered in connection with and subsidiary to the furnishing of property rights or information which are covered under the Article, without having the value of the portion of such stock which is attributable to the services included in income. This elective deferral privilege, which avoids cash problems involved in having to pay a current tax on the receipt of stock where the recipient wishes to hold, rather than sell, such stock, would, of course, also apply for purposes of the imposition of any Trinidad and Tobago tax otherwise due by reason of the transaction. Thus, where the connected services are rendered in Trinidad and Tobago and stock in the Trinidad and Tobago corporation to which such services are provided is taken in consideration thereof, the United States resident taking such stock is not subject to (1) Trinidad and Tobago tax, until later disposition of the stock, and (2) any United States tax otherwise due by reason of the receipt of such stock.

Article 8. BUSINESS PROFITS

This Article sets forth the typical treaty rule that industrial or commercial profits of a resident of one State are taxable in the other State only if the resident has a permanent establishment in that other State. Where there is a permanent establishment only the industrial or commercial profits attributable to the permanent establishment can be taxed by that other State.

This Article represents an acceptance by Trinidad and Tobago of the principle that investment income should be taxed separately from industrial and commercial profits where appropriate. Absent the provision, Trinidad and Tobago would tax all income directly or indirectly accrued in or derived from Trinidad and Tobago whether or not effectively connected with a permanent establishment at the regular corporate rates.

Under most of the United States Conventions negotiated prior to the new French Treaty, industrial or commercial profits are not taxed in the absence of a permanent establishment. However, once there is a permanent establishment these conventions, and the old French Convention, provide that the provisions reducing the tax rates on interest and dividends and exempting royalties are not applicable. This rule is known as the "force of attraction" principle and is replaced in the proposed Convention, as in our new treaty with France, with the effectively connected concept. Under the new approach, only that interest, dividends and royalties which are effectively connected with the permanent establishment are taxable as part of the industrial or commercial profits and only such income does not benefit from the reduced rate or exemption.

In determining the proper attribution of industrial or commercial profits under the proposed treaty, the permanent establishment is generally to be treated as an independent entity and considered as realizing the profits which would be realized if the permanent establishment dealt with the resident of which it is a permanent establishment on an arm's-length basis. Expenses, wherever incurred, which are reasonably connected with profits attributable to the permanent establishment, including executive and general administrative expenses, will be allowed as deductions by the State in which the permanent establishment is located in computing the tax due to such State. However, it is not necessary to allow a profit to the head office for ancillary and management services furnished to the permanent establishment as long as the permanent establishment is allowed to deduct the costs incurred by the head office.

The mere purchase of goods or merchandise in a State by the permanent establishment, or by the resident of which it is a permanent establishment, for the account of such resident will not cause attribution of profits to such permanent establishment.

The term "industrial or commercial profits" means income derived from the active conduct of a trade or business. For example, it includes profits from manufacturing, mercantile, agricultural, fishing, and transportation activities. However, the term also includes investment income but only if the right or property giving rise to the income is effectively connected to a permanent establishmer

Income received by an individual as compensation for personal services (either as an employee or in an independent capacity) or insurance premiums, are not included within the definition of industrial or commercial profits. Further, rentals from motion picture films or films or tapes for radio or television broadcasting are not included within the definition of the term industrial or commercial profits under the proposed Convention.

This Article is substantially similar to the business profits article of the OECD Model Convention except that the Model Convention does not contain a definition of industrial or commercial profits.

Article 9. PERMANENT ESTABLISHMENT

This Article defines the term "permanent establishment." The existence of a permanent establishment is, under the terms of the proposed Convention, a prerequisite for one State to tax the industrial or commercial profits of a resident of the other State. The concept is also significant in determining the applicability of other provisions of the Convention, such as Article 12 (Dividends), Article 13 (Interest), and Article 14 (Royalties). The definition of "permanent establishment" is a modernized version of the definition found in some of our older treaties. The new definition is similar to the definition found in our French Convention.

The term "permanent establishment" means "a fixed place of business through which a resident of one of the Contracting States engages in industrial or commercial activity." Illustrations of the concept of a fixed place of business include a seat of management, an office, a store or other sales outlet, a workshop, a factory, a warehouse, a place of extraction of natural resources, or a building, construction, or installation project which is used for such purpose for 6 months or more. As a general rule, any fixed facility through which an individual, corporation or other person conducts industrial or commercial activity will be treated as its permanent establishment unless it falls in one of the specific exceptions described below. The proposed Convention uses the term "a seat of management" which was the term used in our Convention with France. The technical explanation of our French Convention explains the definition of the term "a seat of management" and its difference in meaning from the term "a place of management" as follows:

> It should be noted that this convention uses the term "seat of management" where the OECD model convention and prior agreements to which the United States is a party used the term "place of management"; both terms are translations of the French term "un siege de direction" and it is believed the translation found in this convention is the more accurate. Prior agreements in which the term "place of management" appears will be interpreted therefore as if the words "seat of management" had been used.

That explanation is applicable to the proposed Trinidad and Tobago Convention.

This Article specifically provides that a permanent establishment does not include a fixed place of business of a resident of one of the Contracting States which is located in the other Contracting State if it is used only for one or more of the following:

(a) the processing by another person, whether related or unrelated, under arrangements or conditions which are or would be made between independent persons, of goods or merchandise belonging to the resident;

(b) the purchase, under arrangements or conditions which are or would be made between independent persons, of goods or merchandise for the account of the resident;

(c) the storage and/or delivery of goods belonging to the resident, (other than goods or merchandise held for sale by such resident in a store or other sales outlet);

(d) the collection of information for the resident;

(e) advertising, the conduct of scientific research, the display of goods or merchandise, or the supply of information, if such activities have a preparatory and auxiliary character in the trade or business of the resident; or

(f) construction, assembly, or installation projects if the site or facilities are used for such purpose for less than 6 months.

These exceptions are cumulative and a site or facility used solely for more than one of these purposes will not be considered a permanent establishment under the proposed Convention. The construction project rule is a physical test under which the resident must be actively engaged in the project during the specified period.

Notwithstanding the other provisions of this Article, a person will be considered to have a permanent establishment if he engages in business through an agent, other than an independent agent, who has and regularly exercises authority to conclude contracts in the name of such person unless the agent only exercises such authority to purchase goods or merchandise. The proposed Convention further provides that a resident of one State will be considered to have a permanent establishment in the other State if such resident engages in business in such other State through a person, who maintains in that other State, a stock of goods or merchandise belonging to such resident from which such person regularly fills orders or makes deliveries. A resident of one State will also be considered to have a permanent establishment in the other State if such resident maintains equipment or machinery for rental or other purposes within that other State for a period of 6 months or more.

With respect to an independent agent, the proposed Convention also provides that a resident of one State will not be deemed to have a permanent establishment in the other State if such resident engages in industrial or commercial activity in such other State through an independent agent, such as a broker or general commission agent, if such agent is acting in the ordinary course of his business.

The determination of whether a resident of one State has a permanent establishment in the other State is to be made without regard to any control relationship of such resident with respect to a resident of the other State or with respect to a person which engages in industrial or commercial activity in that other State (whether through a permanent establishment or otherwise)

The Article provides that a resident of one of the States has a permanent establishment in the other State if it sells in that other State goods or merchandise that are either (1) subjected to substantial processing in that other State (whether or not purchased in the other State) or (2) purchased in that other State and such goods or merchandise are not subjected to substantial processing outside the other State. Under this rule, which is similar to the rule contained in the proposed Belgium Convention the taxpayer will have a permanent establishment whether or not he maintains a sales office in the other State. Thus, where an independent agent acting for a United States corporation arranges for the sale of goods in Trinidad and Tobago, the United States corporation will nevertheless be deemed to have a permanent establishment in Trinidad and Tobago where those goods were purchased in Trinidad and Tobago for that corporation by the agent (or by any other person) and then resold by the corporation without having been subjected to processing outside Trinidad and Tobago prior to such resale. With respect to a United States corporation selling goods purchased outside Trinidad and Tobago (or produced outside Trinidad and Tobago), their resale (or sale) in Trinidad and Tobago will of itself give rise to a permanent establishment only if these goods are subjected to substantial processing in Trinidad and Tobago.

If a resident of one State maintains a permanent establishment in the other State at any time during the taxable year, the permanent establishment will be considered to have existed for the entire taxable year.

Article 10. SHIPS AND AIRCRAFT

This Article provides that, notwithstanding the rules of Article 8 concerning business profits, a resident of Trinidad and Tobago will be exempt from tax in the United States on income derived from the operation in international traffic of ships or aircraft, including capital gain derived from the sale of a ship or aircraft used in such traffic, and that a resident of the United States will be exempt from tax in Trinidad and Tobago on income derived from the operation in international traffic of ships or aircraft, including capital gain derived from the sale of a ship or aircraft used in such traffic, registered in the United States. It should be noted that the registration requirement is only applicable in the case of a resident of the United States.

This Article also will apply to income derived from the leasing, to a person engaged in the operation of ships or aircraft, of a ship or aircraft under a full or bareboat charter, where the lessor is engaged in the operation of ships or aircraft if such lease is ancillary to the lessor's other operations. For example, if an airline of one of the Contracting States which has excess equipment in the winter months leases several aircraft which are excess during that period to an airline in the other Contracting State, the lessor is not subject to tax by that other Contracting State.

Article 11. RELATED PERSONS

This Article complements section 482 of the Internal Revenue Code of 1954 and confirms the power of each government to allocate items of income, deduction, credit, or allowances in cases in which a resident of one State is related to any other person if such related persons impose conditions between themselves which are different from conditions which would be imposed between independent persons. This provision is similar to the provision contained in the OECD Model Convention.

Provision is made in Article 23 (Mutual Agreement Procedures) for consultation and agreement between the two States where an allocation by either State results or would result in double taxation.

Article 12. DIVIDENDS

The proposed Convention provides for unilateral reduction on the part of Trinidad and Tobago with respect to dividends which are derived from sources within Trinidad and Tobago by a resident of the United States. Thus, the United States withholding tax which is imposed at a 30-percent rate on non-effectively connected dividends paid by United States corporations to nonresidents of the United States is not affected by the proposed Convention. In the absence of a convention, Trinidad and Tobago imposes a 30-percent withholding tax on dividends and branch profits remitted to nonresidents of Trinidad and Tobago. To determine the source of a dividend for the purposes of this article, the rules contained in paragraph (1) of Article 5 (Source of Income) are used.

Under the proposed Convention Trinidad and Tobago may impose a withholding tax of 25 percent on the gross amount actually distributed with respect to portfolio investment dividends. The proposed Convention further provides that Trinidad and Tobago may impose a maximum rate of 10 percent with respect to intercorporate dividends if the recipient owns 10 percent or more of the stock of the paying corporation and generally if not more than 25 percent of the gross income of the paying corporation consists of dividends and interest. The rate of withholding which is imposed by Trinidad and Tobago on profits of a branch of a United States corporation located in Trinidad and Tobago is also limited to 10 percent.

The proposed Convention abandons the "force of attraction" concept by providing that the reduced rate of tax on dividends is denied only if the shares with respect to which the dividends are paid are effectively connected with a permanent establishment which the recipient United States resident has in Trinidad and Tobago. In such a case the dividends may be taxed as business profits in accordance with Article 8 (Business Profits) of the proposed Convention.

The proposed Convention also provides specific definitions of the term "dividends" in the case of the United States and Trinidad and Tobago. These terms allow each State to treat those payments which, under their internal law are treated as dividends, to be so treated for purposes of the proposed Convention. This rule is directly related to the position adopted in the proposed Convention with respect to remittances of a branch of a United States corporation, located in Trinidad and Tobago, to such corporation.

The proposed Convention also provides that dividends paid by a corporation of one of the States to a person other than a resident of the other State (in the case of dividends paid by a Trinidad and Tobago corporation, other than to a citizen of the United States) shall be exempt from tax by that other State unless such dividends are treated as income from sources within that other State under Article 5 (Source of Income). Thus, for example, if dividends are paid by a Trinidad and Tobago corporation to an individual who is a resident of a country other than the United States and who is not a citizen of the United States, and such dividends are not effectively connected with a permanent establishment located in the United States, the United States will not be able to subject this dividend to tax unless the Trinidad and Tobago corporation had a permanent establishment in the United States for a 3-year period and derived at least 50 percent of its gross income from industrial and commercial profits which are effectively connected with such permanent establishment and then the only amount subject to tax would be the pro rata portion of the permanent establishment's income which is effectively connected with the United States trade or business. In no case will the amount of the dividend which was treated as income from sources within the United States exceed the net amount of money or money's worth transferred from such permanent establishment during the 3-year period.

The proposed Convention also provides that where a corporation of one State has a permanent establishment in the other State and derives profits or income which are effectively connected with that permanent establishment, any remittance of such profits or income by that permanent establishment may be taxed as a distribution in accordance with the law of the other State at a rate which will not exceed 10 percent. This 10-percent rate corresponds to the reduced rate which is applied to intercorporate dividends under paragraph (1)(b) of this Article. This provision has been included to take into account the taxation of such remittances under the tax laws of Trinidad and Tobago. This provision only applies to remittances that are attributable to gains, profit, or income which is effectively connected with the permanent establishment in Trinidad and Tobago. Thus, if there is a permanent establishment in Trinidad and Tobago and no income is earned which is treated as effectively connected with that permanent establishment, no portion of any remittance from that permanent establishment to the United States home office would be subject to this 10-percent tax.

It should be noted that this provision in no way affects the United States taxation of such remittances. Thus, since the United States would not treat such remittances as a dividend, the 10-percent tax which is imposed would not be treated as a tax imposed on the operations of the corporation in Trinidad and Tobago through a permanent establishment.

It should also be noted that the proposed Convention does not contain an Article dealing with capital gains. Both Trinidad and Tobago and the United States have domestic rules which provide a large measure of exemption for foreigners deriving capital gains. In the case of the United States, a nonresident alien is exempt from tax on capital gains unless he is present in the United States for a period or periods aggregating 183 days or more during the taxable year. In the case of Trinidad and Tobago, capital gains are taxed at normal rates. However, if the holding period of the asset is longer than 12 months, the gain is not regarded as income and is exempt from taxation. Since the proposed Convention does not provide special rule for capital gains, paragraph (2) of Article 3 (General Rules of Taxation) applies.

Article 13. INTEREST

The proposed Convention provides for a unilateral reduction by Trinidad and Tobago of the rate of withholding tax which is imposed on interest which is received from sources within Trinidad and Tobago by a resident of the United States which is either a bank or other financial institution not having a permanent establishment in Trinidad and Tobago. In the case of such residents of the United States the rate of tax imposed by Trinidad and Tobago shall not exceed 15 percent of the gross amount paid. For purposes of determining the source of an interest payment, the rule provided in paragraph (2) of Article 5 (Source of Income) shall be used. It should be noted that if the recipient of an interest payment from sources within Trinidad and Tobago is a resident of the United States other than a bank or financial institution which does not have a permanent establishment in Trinidad and Tobago, the reduced rate of tax which is provided in the proposed Convention will not apply. The proposed Convention also provides that interest received by one of the States or any wholly owned instrumentality of that State is exempt from tax by the other State. Thus, for example, interest which is received from sources within Trinidad and Tobago by the Export-Import Bank of the United States would not be subject to Trinidad and Tobago tax under this Article.

As in the case of dividends, the United States has not reduced its rate of withholding on interest under the proposed Convention. Thus, the United States may impose its withholding tax at the statutory rate of 30 percent on noneffectively connected interest which is derived by residents or corporations of Trinidad and Tobago from sources within the United States, except that interest derived by the Government of Trinidad and Tobago or any of its wholly owned agencies is exempt from such tax.

Under Trinidad and Tobago income tax law any interest payment made by a subsidiary to his parent is deemed to be a nondeductible distribution of profits if the parent owns 50 percent or more of the stock of the payor subsidiary. Paragraph (5) has been added so as to limit the application of this rule to situations where the taxpayer cannot demonstrate the absence of tax avoidance as the motive for making the interest payment. Under the proposed Convention where excess interest payments are made because the payor and the recipient are related, the provisions of this Article apply only to so much of the interest as would have been paid to an unrelated person. The excess payment may be taxed by each State according to its own law including the provisions of the proposed Convention where applicable.

This Article contains a provision which is comparable to that found in Article 12 (Dividends) which states that interest paid by a corporation of one of the States to a person other than a resident of the other State (and, in the case of interest paid by a Trinidad and Tobago corporation, other than a citizen of the United States) shall be exempt from tax by the other State,unless such interest is treated as income from sources within that other State under paragraph (2)(b) or (8) of Article 5 (Source of Income).

Article 14. ROYALTIES

The proposed Convention provides on a reciprocal basis an exemption for artistic and literary royalties but permits a tax to be levied at a maximum rate of 15 percent on other royalties.

The term "royalties" is defined to include payments of any kind made as consideration for the use of, or the right to use, copyrights, artistic or scientific works, patents, designs, plans, secret processes or formulae, trademarks, or other like property or rights (not including motion picture films or films or tapes for radio or television broadcasting), or information concerning industrial, commercial, or scientific knowledge, experience, or skill.

For purposes of the proposed Convention, the term "royalties" does not include any royalties, rentals, or other amounts paid in respect of the operation of mines or quarries or other resources. The rules applicable to such income are contained in Article 15 (Income from Real Property) of the proposed Convention.

The provisions of this Article do not apply if the recipient of a royalty has a permanent establishment in a State of source and the rights or property giving rise to such royalty is effectively connected with such permanent establishment. In such a case, the royalty may be taxed as industrial or commercial profits under Article 8 (Business Profits). Thus, the "force of attraction" principle is also abandoned with respect to royalties. To determine the source of a particular royalty, the rules provided in paragraph (3) of Article 5 (Source of Income) shall be used.

Under the proposed Convention, if excess royalties are paid because the payor and recipient are related, the provisions of the royalties Article apply only to so much of the royalty as would have been paid to an unrelated person. The excess payment may be taxed by each State, according to its own law including the provisions of the proposed Convention where applicable.

Article 15. INCOME FROM REAL PROPERTY

This Article provides a resident who is subject to taxation on income from real property with an election to be taxed on a net basis. The election applies to income from real property, including gains derived from the sale or exchange of such property, and natural resource royalties. Each State retains the right to tax income from real property under paragraph (1) of Article 3 (General Rules of Taxation).

Article 16. INVESTMENT OR HOLDING COMPANIES

This Article denies the benefits of the dividends, interest, and royalties Articles to a corporation of one of the States deriving such income from sources within the other State if (1) such corporation is entitled to special tax benefits which result in the tax imposed on such income being substantially less than the tax generally imposed on corporate profits in such State, and (2) 25 percent or more of the capital of the corporation is owned directly or indirectly by one or more persons who are not individual residents of such State or, in the case of a Trinidad and Tobago corporation, are citizens of the United States.

The purpose of this Article is to deal with a potential abuse which could occur if one of the States provided preferential rates of tax for investment or holding companies. In such a case, residents of third countries could organize a corporation in the State extending the preferential rates for the purpose of making investments in the other State. The combination of the low tax rates in the first State and the reduced rates or exemptions in the other State would enable the third-country residents to realize unintended benefits.

Article 17. INCOME FROM PERSONAL SERVICES

This Article provides that an individual resident of one State is exempt from tax by the other State with respect to income from personal services performed in such other State if such person is physically present there for not more than 183 days, in the aggregate, during the taxable year and either (1) such individual is an employee of a resident of a State other than the State of source (or an employee of a permanent establishment of a resident of the State of source located outside such State) and the amount of such income is not deducted in computing the profits of a permanent establishment of the State of source; or (2) such income does not exceed $3,000 or its equivalent in Trinidad and Tobago dollars. Thus, if such individual's employment income does not exceed $3,000 or its equivalent in Trinidad and Tobago dollars, such individual need only satisfy the physical presence limitation in order to qualify for the exemption.

Compensation for services performed as a member of the regular complement aboard ships or aircraft operated in international traffic by a resident of one State (and in the case of the United States, registered in the United States) are exempt from tax in the other State. This exception does not limit a State's right to tax its own citizens or residents.

"Income from personal services" includes income from the performance of personal services in an independent capacity and "employment income." Employment income includes income from services performed by officers and directors of corporations. However, income from personal services performed by partners is treated as income from the performance of services in an independent capacity.

The exemption applicable to personal service income is limited in the case of (1) public entertainers, such as musicians, actors, or professional athletes, and (2) any person providing the services of a person described in (1) even though such income may otherwise be considered exempt under some other provision of this Convention. These persons are taxable if their income from such activities exceeds $100 (or its equivalent in Trinidad and Tobago dollars) for each day the individual is present for purposes of performing within the State.

Article 18. TEACHING AND RESEARCH

This Article of the proposed Convention provides a reciprocal exemption from tax for personal service income of visiting teachers or researchers. This exemption applies to an individual who is a resident of one State at the time he is invited by the Government of the other State or by an accredited educational institution of the other State to teach or do research in the other State and temporarily comes to such other State in order to engage in such teaching or research. However, the exemption does not apply to income (1) from research undertaken not in the public interest but primarily for private benefit of a specific person or persons or (2) in cases where an agreement exists between the Governments of States for the provision of the services of such individuals. If the individual's visit exceeds a period of 2 years from the date of arrival, the exemption applies to the income received by the individual before the expiration of such 2-year period. Under this provision an individual who has been a student or trainee and has been receiving the benefits of exemption under Article 19 (Students and Trainees) will not generally be entitled to the benefits of this Article if he subsequently becomes a teacher in the other State since one of the requirements of this Article is that the individual must be a resident of the first State at the time of his invitation to teach in the other State.

Article 19. STUDENTS AND TRAINEES

This Article provides that an individual who is a resident of one State at the time he becomes temporarily present in the other State for the purpose of studying at a university or other accredited institution, of securing training for qualification in a profession or of studying or doing research as a recipient of a grant, allowance, or award from a governmental, religious, charitable, scientific, literary, or educational institution is exempt from tax in the host State on:

(1) Gifts from abroad for his maintenance and study;

(2) The grant, allowance, or award;

(3) Income from personal services performed in the host State not in excess of $2,000 (or its equivalent in Trinidad and Tobago dollars) for any taxable year. The $2,000 exemption is increased to $5,000 if a resident is securing training required to qualify him to practice a profession or a professional specialty.

These exemptions continue for such period of time as may be reasonably or customarily required to effectuate the purpose of his visit but in no event may an individual have the benefit of this Article and Article 18 (Teachers) for more than a total of 5 taxable years from the date of arrival.

In addition, a resident of one State employed by or under contract with a resident of that State who, at the time he is a resident of that State, becomes temporarily present in the other State for the purpose of studying or acquiring technical, professional, or business experience other than from a resident of the first-mentioned State is exempt from tax in the host State on income not in excess of $5,000 (or its equivalent in Trinidad and Tobago dollars) from personal services rendred in the host State. The individual is exempt for a perod of one year which period commences with the first day of the first month in which he begins working or receives compensation.

Also, an individual who is a resident of one State at the time he becomes temporarily present in the other State for a period not exceeding one year and who is temporarily present in the host State as a participant in a government program of the host State for the primary purpose of training, research, or study is entitled to an exemption by the host State with respect to his income from personal serfices relating to such training, research, or study performed in the host State in an amount not in excess of $10,000 United States dollars (or its equivalent in Trinidad and Tobago dollars).

If an individual qualifies for the benefits of more than one of the provisions of the personal services Articles, he may choose the provision most favorable to him but he may not claim the benefits of more than one provision in any taxable year.

Article 20. GOVERNMENTAL SALARIES

The proposed Convention provides that wages, salaries, and similar compensation, pensions, annuities, or similar benefits, which are paid by or from the public funds of one of the States to an individual who is a national of that State for services rendered to that State in the discharge of governmental functions shall be exempt from tax by the other State.

Unlike the French Convention the proposed Convention does not apply to political subdivisions of a State. Thus, for example, empoyees of a State or municipal government of the United States employed in Trinidad and Tobago will not be exempt from Trinidad and Tobago tax under the proposed Convention.

With respect to the application of this provision to Trinidad and Tcbago, it should be noted that Trinidad and Tobago taxes on the basis of residence and not citizenship. Further, a person loses his resident status in Trinidad and Tobago for tax purposes if he remains outside the country for a continuous period of 6 months. Thus, a resident of Trinidad and Tobago employed abroad can be subject to tax in Trinidad and Tobago for no more than 6 months.

The proposed Convention also adds a specification that the compensation must be paid in connection with the discharge functions of a governmental nature. Compensation paid in connection with industrial or commercial activity is treated the same as compensation received from a private employer.

The provisions relating to dependent personal services, private pensions and annuities, and social security payments would apply in such a case.

Article 21. RULES APPLICABLE TO PERSONAL INCOME ARTICLES

This Article extends the benefits of the personal services Articles (Articles 17 through 20) to reimbursed travel expenses. However, such reimbursed expenses will not be taken into account in computing the maxiumum amount of exemptions specified in Articles 17 (Income from Personal Services) and 19 (Students and Trainees). If an individual qualifies for the benefits of more than one of the provisions of Articles 17 through 20, he may choose the provision most favorable to him but he may not claim the benefits of more than one Article with respect to the same income in any one taxable year.

Article 22. PRIVATE PENSIONS AND ANNUITIES

The proposed Convention provides that private pensions, private life annuities, and alimony which are paid to an individual who is a resident of one of the States shall be exempt from tax in the State of source.

The term "life annuities" is defined to mean a stated sum paid periodically at stated times during life, or during a specified number of years, under an obligation to make payments in return for adequate and full consideration in money or money's worth.

The term "pension" is defined as periodic payments made after retirement or death in consideration for services rendered, or by way of compensation for injuries received in connection with past employment.

The term "alimony" is defined as periodic payments made pursuant to a decree of divorce or of separate maintenance which are taxable to the recipient under the internal laws of the State of which he is a resident. Thus, the term "alimony" would not include a payment which would not be taxable to the recipient under the laws of the State in which he is a resident even though such payment is made pursuant to a decree of divorce or of separate maintenance.

The effect of this provision is the same as that of the OECD Model Convention.

Article 23. MUTUAL AGREEMENT PROCEDURES

This Article provides that the competent authorities of the States may prescribe regulations for implementing the present Convention within their respective States and may communicate with each other directly for the purpose of carrying out and giving effect to the provisions of this Convention.

This Article also provides that the competent authorities of the two States will endeavor to settle by mutual agreement cases of taxation not in accordance with the Convention as well as any other difficulties or doubts arising as to the application of the Convention. Some particular areas on which the competent authorities may consult and reach agreement are (1) the amount of industrial and commercial profits to be attributed to a permanent establishment, (2) the allocation of income,deductions, credits, or allowances between a resident and any related person, and (3) the determination of the source of particular items of income in accordance with the rules set forth in Article 5 (Source of Income).

In implementing the provisions of this Article, the competent authorities will communicate with each other directly and meet together for an exchange of oral opinions where advisable.

In cases in which the competent authorities reach agreement with respect to a particular matter, taxes will be adjusted and refunds or credits allowed in accordance with such agreement. This provision permits the issuance of a reund or credit notwithstanding procedural barriers otherwise existing under a State's law, such as the Statute of Limitations.

This provision will apply only where agreement or partial agreement has been reached between the competent authorities and will apply in the case of any such agreement after the Convention goes into effect even though the agreement may concern taxable years prior thereto.

Revenue Procedure 70-18 sets forth the procedures followed by the United States in implementing its obligations under this type of article.

Article 24. EXCHANGE OF INFORMATION

This Article provides for a system of administrative cooperation between the competent authorities of the two States and specifies conditions under which information may be exchanged to facilitate the administration of the Convention and to prevent fraud and the avoidance of taxes to which the Convention relates.

Information exchanged is treated as secret and may not be disclosed to any persons other than those (including a court or administrative body) concerned with the assessment, collection, enforcement, or prosecution of taxes subject to the Convention, but this does not prohibit incidental disclosure in the course of a court proceeding. In no case does this Article impose an obligation on either State to exchange information which would disclose trade secrets or similar information. Further, information shall not be exchanged unless that information is available to a Contracting State under its taxation laws and administrative procedures.

The mutual exchange of information called for by these provisions is presently in effect in most of the conventions to which the United States is a party.

Article 25. ASSISTANCE IN COLLECTION

This Article provides for mutual assistance in the collection of taxes where required to avoid an abuse of the Convention. The provision is intended merely to insure that the benefits of the Convention will only be available with respect to persons entitled to such benefits; it does not in any way alter the rights under other provisions of the Convention.

The Article provides that each State will endeavor to collect for the other State such amounts as may be necessary to insure that any exemption or reduced rate of tax granted under the proposed Convention will not be availed of by persons not entitled to those benefits. However, this Article will not require a State, in order to collect taxes which are imposed by the other State, to undertake any administrative measures that differ from its internal regulations or practices nor will this Article require a State to undertake any administrative or judicial measures which are contrary to that State's sovereignty, security, or public policy.

Article 26. TAXPAYER CLAIMS

This Article provides for the administrative review of taxpayer claims. Thus, when a resident of one State considers that action has resulted or will possibly result in taxation contrary to the provisions of the Convention, such resident may present his case to the competent authority of the State of which he is a resident. This remedy is in addition to any remedy provided by the law of either State. The competent authority of the State to which the claim is made shall, if he thinks the claim has merit, endeavor to settle this claim with the competent authority of the other State. In cases in which the competent authorities reach agreement with respect to a particular matter, taxes will be imposed and refunds or credits allowed (as provided in Article 24 (Mutual Agreement Procedures) in accordance with such agreement.

Article 27. EXCHANGE OF LEGAL INFORMATION

This Article specifically provides that the competent authority of each State will advise the competent authority of the other State of any addition to or amendment of tax laws which concern the imposition of taxes which are the subject of this Convention. It is further provided that the competent authority of each State will exchange the texts of all published material interpreting the present Convention under the laws of the respective States, whether in the form of regulations, rulings, or judicial decisions.

Article 28. EFFECTIVE DATES AND RATIFICATION

This Article provides for the ratification of the proposed Convention and for the exchange of instruments of ratification. The proposed Convention will have effect for taxable years beginning on or after the first day of January of the year in which the instruments of ratification are exchanged. However, (1) the provisions of paragraph (2) of Article 7 (Tax Deferral for Technical Assistance) shall be effective with respect to stock received on or after the date of the signing of the Convention and (2) Trinidad and Tobago agrees, following the signing of this Convention, to take all steps that are necessary to give effect to the provisions of Article 12 (Dividends) so that the provisions of that article shall be effective from January 1, 1970, and shall terminate on December 31, 1970, unless this Convention has been ratified by both States. This provision was added in order to authorize Trinidad and Tobago to reduce the rate of its withholding on dividends as soon as the Convention is signed and not postpone this reduction until the Convention is ratified.

This Article also provides rules for terminating the Convention. The Convention will continue in effect indefinitely, but may be terminated by either State at any time after 5 years from the first day of January of the year in which the instruments of ratification are exchanged. A State seeking to terminate the Convention must give notice at least 6 months before the end of the calendar year through diplomatic channels. If the Convention is terminated such termination shall be effective for taxable years beginning on or after the first day of January next following the expiration of the 6-month period.

Article 29. EXTENSION OF CONVENTION

This Article provides a method by which either State may extend the Convention, either in whole or in part or with such modification as may be found necessary for special application in a particular case, to all or any areas for whose international relations the State is responsible and which area imposes taxes substantially similar in character to those which are the subject of this Convention.

Extension to an area may be accomplished by a State through a written notification given to the other State through diplomatic channels. The other State shall indicate its acceptance by a written communication through diplomatic channels. When the notification and communication have been ratified in accordance with the constitutional procedures of each State and instruments of ratification exchanged the extension will take effect for the date specified in, and be subject to such conditions as are specified in, the notification. Without such acceptance and exchange of instruments of ratification in respect of an area, none of the provisions of this Convention shall apply to such areas.

Either of the States may terminate an extension with respect to an area by 6 months' prior written notice of termination given to the other State at any time after the date of entry into force of the extension. The termination will take effect for taxable years beginning on or after the first day of January next following the expiration of the 6-month period. The termination of an extension to a particular area shall not affect the application of the Convention to the United States, Trinidad and Tobago, or any other area to which the Convention has been extended.

October 6, 1970

Technical Explanation
of
U.S.-Belgium Income Tax Convention
Signed July 9, 1970

Article 1. PERSONAL SCOPE

This Article, which is a new provision for United States treaties, is similar to Article 1 of the Draft Double Taxation Convention on Income and Capital developed by the Fiscal Committee of the Organization for Economic Cooperation and Development and published in 1963 (hereinafter referred to as the OECD Model Convention). The Article does not have substantive importance. Its purpose is to generally delineate the persons who come within the scope of the Convention. The Article is not complete in its delineation of persons covered in that persons who are residents of one or both of the Contracting States are sometimes not covered in the Convention and that other persons who are not residents of either of the Contracting States are covered by this Convention. For example, Article 19 (Governmental Functions) applies to citizens of a third State who come to one of the Contracting States expressly for the purpose of being employed by the other Contracting State. While the title of Article 1 is

"Personal Scope," the Convention, of course, is applicable to corporations and other entities as well as to individuals.

Article 2. TAXES COVERED

This Article designates the taxes of the respective States which are the subject of the proposed Convention. With respect to the United States, the taxes included are the United States Federal income taxes imposed by the Internal Revenue Code. This includes, for example, the surtax and would also include such taxes as the temporary surcharge which was in force from 1968 to 1970. However, the Convention is not intended to apply to taxes which are in the nature of a penalty such as the taxes imposed under section 531 (accumulated earnings tax) and section 541 (personal holding company tax) of the Internal Revenue Code.

With respect to Belgium, the taxes included are (1) the individual income tax; (2) the corporate income tax; (3) the income tax on legal entities; (4) the income tax on nonresidents; (5) the prepayments and additional prepayments; and (6) surcharges on any of the taxes referred to in (1) through (5), including the communal supplement to the individual income tax.

The Belgian individual income tax is payable by resident individuals on income from all sources but with reduced rates for foreign source income.

The Belgian corporate income tax is payable by resident Belgian companies on income from all sources but with reduced rates for foreign source income.

The Belgian income tax on legal entities is a tax payable in lieu of the corporate income tax and is imposed upon the political subdivisions of Belgium and those resident legal entities which are not engaged in business activity. This tax is levied solely on income from movable capital (generally dividend and interest income) and real property.

The Belgian income tax on nonresidents is payable by nonresident individuals, corporations, and other legal entities on income earned or received in Belgium.

In addition to the above-enumerated taxes, prepayment of tax in the form of withholding by the payor is required by Belgian law in the case of income from movable capital (generally dividend and interest income) and income from real property. There is also a standard professional prepayment (withholding) which applies to wages and salaries, remuneration paid by a corporation to managers, directors and persons with similar functions, and to pensions, certain prizes and subsidies, and in the case of a non-resident recipient, alimony. These taxes are known as "les précomptes." While Article 2 also lists "additional prepayments" (compléments de précomptes), that tax, which was an additional 15 percent prepayment on income from movable capital, has not been in force since January 1, 1967. It was included at the request of Belgium in the case such tax is re-established, although even in the absence of an express reference, a new or re-established tax would be covered by paragraph (2) of this Article. In the case of income from real property, Belgian law provides for an additional advance payment in the case of taxpayers subject to the income tax on nonresidents whose fiscal domicile is in a country with whom Belgium has concluded a double taxation agreement giving Belgium exclusive right to tax real property situated in her territory. Since, under Article 23 (Relief from Double Taxation), the United States reserves the right to tax its citizens and residents as if the Convention had not come into effect, Belgium does not have an exclusive right to tax United States residents on income from real property and therefore there is no additional advance payment on such income paid to United States residents.

Pursuant to paragraph (2) of this Article the proposed Convention would also apply to taxes substantially similar to those enumerated which are imposed, in addition to or in place of the existing income taxes, after the date of signature of this Convention (July 9, 1970).

This Article also provides that the competent authorities of the Contracting States are to notify each other of any amendments of the laws imposing the enumerated taxes and of the adoption of any taxes which are subsequently imposed by transmitting the text of any amendments or new statutes at least once a year. Further, the competent authorities are to notify each other of the publication by their respective States of any material concerning the application of this Convention, whether in the form of regulations, rulings, or judicial decisions, by transmitting the text of any such material at least once a year.

Article 3. GENERAL DEFINITIONS

This Article sets out definitions of certain of the basic terms used in the proposed Convention. A number of important terms, however, are defined elsewhere in the Convention.

Any term used in this Convention which is not defined therein shall, unless the context otherwise requires, have the meaning which it has under the laws of the State which is imposing the tax. However, in a case where a term has a different meaning under the laws of Belgium and the United States or where the meaning under the laws of one or both of the States is not clear, the competent authorities may agree on a uniform definition. See Article 25 (Mutual Agreement Procedure). While treaties in the past did not specify the power of the competent authorities to resolve such differences in definitions, this power is nevertheless inherent in the authority set forth in the mutual agreement article of these treaties to resolve "difficulties or doubts."

This Article defines geographical Belgium and geographical United States to include their respective continental shelves. The addition of a definition of the continental shelf is intended to clarify what the Contracting States consider to be included within their respective jurisdictions to tax. The United States continental shelf is defined as the seabed and subsoil of the adjacent submarine areas beyond the territorial sea over which the United States exercises exclusive rights in accordance with international law for the purpose of exploration and exploitation of the natural resources of such area, but only to the extent that the person, property, or activity to which this Convention is being applied is connected with such exploration or exploitation. For example, the income earned by a ship and its employees engaged in taking seismograph soundings on the United States continental shelf will be treated for tax purposes the same as the income from a comparable activity on the land of one of the States of the United States. A comparable definition is used in the case of Belgium. The definition of the continental shelf in the case of the United States only includes the continental shelf surrounding the 50 States. Thus, for example, the continental shelf surrounding Puerto Rico is not included. If the treaty were extended beyond the 50 States and the District of Columbia (see Article 29 - Extension to Territories) the continental shelf of the extended areas would also be covered. The defined continental shelf is only part of the United States or Belgium, as the case may be, in limited situations. It is included only to the extent that a person or property or activity to which the Convention is being applied is connected with exploration or exploitation of the continental shelf. The phrase "connected with" does not require physical attachment to the continental shelf to be within the scope of the definition.

The Article also defines "United States corporation" and "Belgian corporation." Because of the difference in concept, an entity could under Belgian law be considered to be a Belgian corporation and under United States law to be a United States corporation. For purposes of the proposed Convention, such a corporation would be treated as a corporation of neither State because of the provisions in the definitions of a corporation of the United States, and a corporation of Belgium, that an entity may not be considered a corporation of the United States, or Belgium, if it is a corporation of the other State under domestic law of that other State. While such a result would make the benefits of the Convention generally unavailable, it is relatively easy for taxpayers to avoid such a situation.

Article 4. FISCAL DOMICILE

This Article sets forth rules for determining "fiscal domicile" or residence of individuals, corporations and other persons for purposes of the proposed Convention. Residence is important because, in general, only a resident of one of the Contracting States may qualify for the benefits of the Convention. This Article is patterned generally after the fiscal domicile article of the OECD Model Convention.

The term "a resident of Belgium" means a corporation of Belgium as defined in Article 3 (General Definitions) and any person (other than a corporation) who is a resident of Belgium for purposes of its tax. The term "a resident of the United States" means a United States corporation as defined in Article 3 (General Definitions) and any person (except a corporation or any other entity treated as a corporation for United States tax purposes) resident in the United States for purposes of its tax. The language in the parenthesis is intended to deal with the problem of dual residency of a corporation. An entity which would be considered a Belgian corporation under Belgian law and a United States corporation under United States law would, under Article 3 (General Definitions) of the Convention, be neither a Belgian corporation nor a United States corporation. Therefore, it was necessary to make clear that such an entity is not included within the term "any person" for purposes of the second part of the definitions. In addition, the parenthetical language in the definition of a resident of the United States is intended to make clear that a foreign corporation, or other entity treated as a foreign corporation for United States tax purposes, which is a resident of the United States for certain purposes of its income tax law is not, under the Convention, a resident of the United States.

In the case of the United States, the definition provides that a partnership, estate, or trust is treated as a resident only to the extent that the income derived by such person is subject to United States tax as the income of a resident. This language, although different from the Income Tax Convention between the United States and France, signed July 28, 1967, is intended to achieve the same result. Under United States law, a partnership is never, and an estate or trust is often not, taxed as such. Under the proposed Convention, in the case of the United States, income received by a partnership, estate, or trust will not qualify for the benefits of the Convention unless such income is subject to tax in the United States. Thus, in effect, the status of income which is subject to tax only in the hands of the partners or beneficiaries, will be determined by the residence of such partners or beneficiaries. With respect to income taxed in the hands of the estate or trust, the residence of the estate or trust is determinative. This provision is nonreciprocal because of the absence of a similar problem under Belgian law.

An individual who is a resident of both States under the rules of domestic law employed by such States for determining residence will be deemed to be a resident of the State in which he has his permanent home, his center of vital interests (closest economic and personal relations), his habitual abode, or his citizenship, in the order listed. If the issue is not settled by these tests, the competent authorities will decide by mutual agreement the one State of which he will be considered to be a resident. Thus for purposes of the Convention, including the savings clause of Article 23(1), an individual can be resident in Belgium or the United States, but not both.

Article 5. PERMANENT ESTABLISHMENT

This Article defines the term "permanent establishment." The existence of a permanent establishment is, under the terms of the proposed Convention, a prerequisite for one State to tax the industrial or commercial profits of a resident of the other State. The concept is also significant in determining the applicability of other provisions of the Convention, such as Article 10 (Dividends), Article 11 (Interest), Article 12 (Royalties), and Article 13 (Capital Gains). The definition of "permanent establishment" is a modernized version of the definition found in some of our older treaties including the 1948 Convention with Belgium. The new definition is similar to the definition found in our French Convention.

The term "permanent establishment" means "a fixed place of business through which a resident of one of the Contracting States engages in industrial or commercial activity." Illustrations of the concept of a fixed place of business include a seat of management, a branch, an office, a factory, a workshop, a warehouse, a place of extraction of natural resources, or a building site or construction or installation project which exists for more than 12 months. As a general rule, any fixed facility through which an individual, corporation or other person conducts industrial or commercial activity will be treated as its permanent establishment unless it falls in one of the specific exceptions described below. The proposed Convention uses the term "a seat of management" which was the term used in our Convention with France. The technical explanation of our French Convention explains the definition of the term "a seat of management" and its difference in meaning from the term "a place of management" as follows:

> It should be noted that this convention uses the term "seat of management" where the OECD model convention and prior agreements to which the United States is a party used the term "place of management"; both terms are translations of the French term "un siege de direction" and it is believed the translation found in this convention is the more accurate. Prior agreements in which the term "place of management" appears will be interpreted therefore as if the words "seat of management" had been used.

That explanation is applicable to the proposed Belgian Convention.

This Article specifically provides that a permanent establishment does not include a fixed place of business of a resident of one of the Contracting States which is located in the other Contracting State if it is used only for one or more of the following -- (1) the use of facilities for the purpose of storage, display, or delivery of goods or merchandise belonging to the resident; (2) the maintenance of a stock of goods or merchandise belonging to the resident for the purpose of storage, display, or delivery; (3) the maintenance of a stock of goods or merchandise belonging to the resident for the purpose of processing by another person; (4) the maintenance of a fixed place of business for the purpose of purchasing goods or merchandise, or for collecting information, for the resident; (5) the maintenance of a fixed place of business for the purpose of advertising, or the supplying of information, for scientific research, or for similar activities which have a preparatory or auxiliary character,for the resident; or (6) the maintenance of a building site or construction or installation project which does not exist for more than 12 months. The building site or construction or installation project exception is merely a clarification of the rule that such an activity for more than 12 months is a permanent establishment and, accordingly, such an activity for 12 months or less is not a permanent establishment. These exceptions are cumulative and a site or facility used solely for more than one of these purposes will not be considered a permanent establishment under the proposed Convention. The 12-month construction project rule is a physical test under which the resident must be actively engaged in the project during that 12-month period.

This Article also provides that notwithstanding the provisions described in the preceding paragraph if three conditions are met, a resident of one State will have a permanent establishment in the other State. The conditions are:

1. The resident has a fixed place of business in that other State (a) which consists of facilities for the storage, display or delivery of goods or merchandise belonging to the resident; (b) which consists of a stock of goods or merchandise belonging to the resident which is held for processing by another person; or (c) which is used for the purpose of purchasing goods or merchandise for the resident;

2. The goods or merchandise described in paragraph 1 above are either subject to substantial processing in that State (whether or not purchased there) or are purchased in that other State (and are not thereafter subject to substantial processing in another State); and

3. All or part of such goods or merchandise is sold by the resident or his agent for use, consumption, or disposition in that other State.

Under this rule, the taxpayer will have a permanent establishment whether or not he maintains a sales office in the other State.

Thus, for example, if an independent agent acting for a United States corporation arranges the sales of the corporation's goods in Belgium, the United States corporation will, nevertheless, be deemed to have a permanent establishment in Belgium if those goods were purchased in Belgium through a fixed place of business of the corporation (ordinarily a purchasing office would not constitute a permanent establishment) and then resold therein without having been subjected to processing outside Belgium prior to such resale.

Notwithstanding the other provisions of this Article, a person will be considered to have a permanent establishment if he engages in business through an agent, other than an independent agent, who has and regularly exercises authority to conclude contracts in the name of such person unless the agent only exercises such authority to purchase goods or merchandise.

With respect to an independent agent, the proposed Convention also provides that a resident of one State will not be deemed to have a permanent establishment in the other State if such resident engages in industrial or commercial activity in such other State through an independent agent,such as a broker or general commission agent,if such agent is acting in the ordinary course of his business. This rule does not apply with respect to a broker or agent acting on behalf of an insurance company if such broker or agent has, and habitually exercises, an authority to conclude contracts in the name of that company. It was agreed, however, that an insurance company of one State writing reinsurance contracts in the other State would not for that reason be treated as having a permanent establishment, but since it was understood that foreign companies writing reinsurance on Belgian risks do not authorize Belgian brokers or agents to conclude reinsurance contracts in the name of the foreign reinsurance company, it was not necessary to specifically exclude reinsurance contracts from the exception.

The determination of whether a resident of one State has a permanent establishment in the other State is to be made without regard to any control relationship of such resident with respect to a resident of the other State or with respect to a person which engages in industrial or commercial activity in that other State (whether through a permanent establishment or otherwise).

Although this Article is generally drafted with reference to a resident of one of the States engaging in industrial or commercial activity in the other State, for certain purposes the proposed Convention deals with a nonresident engaging in industrial or commercial activity in one of the States or a resident of one of the States engaging in industrial or commercial activity in a third State. For these purposes, the principles set forth in Article 5 are to be applied in determining whether there is a permanent establishment.

Article 6. INCOME FROM REAL PROPERTY

This Article which is similar to an article in the existing treaty provides that a resident of one State may be subject to tax in the other State on income from real property and royalties in respect of natural resources if the property or natural resource is located in such other State. This Article does not, as do the existing treaty and the 1967 treaty between the United States and France, provide for an election by the resident to compute his tax on such income on a net basis since under the internal laws of Belgium and, since 1967, the United States this can be done. The income referred to in this Article includes gain from the sale or exchange of such property or such natural resource rights, but does not include interest on mortgages and similar instruments. The latter type of income is covered by Article 11 (Interest).

Article 7. BUSINESS PROFITS

This Article sets forth the typical treaty rule that industrial or commercial profits of a resident of one State are taxable in the other State only if the resident has a permanent establishment in that other State. Where there is a permanent establishment only the profits attributable to the permanent establishment can be taxed by that other State. For purposes of Article 23 (Relief From Double Taxation) which, among other things, provides that a foreign tax credit will be allowed by the United States, such profits are considered to be from sources within the State in which the permanent establishment is located.

While under the existing Belgian Convention, as under the old French Convention, industrial or commercial profits are not taxed in the absence of a permanent establishment, once there is a permanent establishment the existing Convention, as did the old French Convention, provides that the provisions reducing the tax rates on interest and dividends and exempting royalties are not applicable. This rule is known as the "force of attraction" principle and is replaced in the proposed Convention, as in our new treaty with France, with the effectively connected concept. Under the new approach, only thoseinterest, dividends and royalties which are effectively connected with the permanent establishment are taxable as part of the industrial or commercial profits and do not benefit from the reduced rate or exemption.

In determining the proper attribution of industrial or commercial profits under the proposed treaty, the permanent establishment is generally to be treated as an independent entity and considered as realizing the profits which would be realized if the permanent establishment dealt with the resident of which it is a permanent establishment on an arm's-length basis. Expenses, wherever incurred, which are reasonably connected with profits attributable to the permanent establishment, including executive and general administrative expenses, will be allowed as deductions by the State in which the permanent establishment is located in computing the tax due to such State. However, it is not necessary to allow a profit to the head office for ancillary and management services furnished to the permanent establishment as long as the permanent establishment is allowed to deduct the costs incurred by the head office.

The mere purchase of goods or merchandise in a State by the permanent establishment, or by the resident of which it is a permanent establishment, for the account of such resident will not cause attribution of profits to such permanent establishment.

While some of our more recent conventions attempt a broad definition of "industrial or commercial profits" by setting forth examples of activities which will be considered as giving rise to such profits, this Convention is limited to setting forth three rules of inclusion and exclusion. In spite of the difference in approach, the term "industrial or commercial profits" has a meaning generally similar to that in our other recent treaties. It includes income derived from manufacturing, mercantile, agricultural, fishing, or mining activities, from th operation of ships or aircraft, from the furnishing of personal services of others, from the rental of tangible personal propert and from insurance activities.

This Article specifically provides that the term "industria or commercial profits" includes rents or royalties derived from motion picture films or films or tapes used for radio or television broadcasting or from copyrights thereof and rents derived from the leasing of tangible personal property.

The Article further provides that the term does not include items of income specifically dealt with in other articles of this Convention except as provided in such articles. Thus, income derived from real property and natural resources and dividends, interest, royalties (as defined in paragraph (2) of Article 12 (Royalties), capital gains, and income described in Article 22 (Income Not Expressly Mentioned) constitute industrial or commercial profits only if the right or property giving rise to such amounts is effectively connected with a permanent establishment which the recipient, being a resident of one of the States, has in the other State. Where such amounts do not constitute industrial or commercial profits, they may be taxed separately or together with industrial or commercial profits in accordance with the laws of the State whose tax is being determined, but the limits on the rate of taxation to which such amounts may be subject must be observed.

For example, if a Belgian bank without a permanent establishment in the United States loaned money to a United States manufacturer in the United States, the interest paid by the United States manufacturer to the Belgian bank would be treated as interest and not as industrial or commercial profits and would be governed by Article 11 (Interest) of the proposed Convention which provides for either an exemption or a 15-percent withholding rate.

In the reverse situation where a United States bank with a branch in Belgium derives interest from Belgium which is not effectively connected with its Belgian branch, Belgium could tax the interest together with the income of the permanent establishment as long as the rate of tax on the gross amount of the interest did not exceed the 15-percent limitation.

Income from independent and dependent personal services are specifically dealt with in Articles 14 (Independent Personal Services and 15 (Dependent Personal Services) and, therefore, are not treated as business profits. It is noted that in some of our other recent conventions, there is an express provision excluding such services from the terms "industrial or commercial profits." While there is no such provision in the Belgian Convention, the result is the same.

Article 8. SHIPPING AND AIR TRANSPORT

This Article provides that, notwithstanding the rules of Article 7 (Business Profits) and Article 13 (Capital Gains), income which a resident of one of the States derives from the operation in international traffic of ships registered in that State and gains which a resident of one of the States derives from the sale, exchange, or other disposition of ships operated in international traffic by such residents and registered in that State shall be exempt from tax by the other State.

A resident of one of the States will also be exempt from tax in the other State on income derived from the operation in international traffic of aircraft registered in either State or in a State with which the other State has an income tax convention exempting such income. Gains which a resident of one of the States derives from the sale, exchange, or other disposition of aircraft are accorded the same treatment. An exchange of notes specifically exempting income from the operation of aircraft from tax in the respective States is not considered as an income tax convention exempting such income.

This Article also will apply to income derived from the leasing, to a person engaged in the operation of ships or aircraft, of a ship or aircraft under a full or bareboat charter, where the lessor is engaged in the operation of ships or aircraft if such lease is ancillary to the lessor's other operations. For example, if an airline of one of the Contracting States which has excess equipment in the winter months leases several aircraft which are excess during that period to an airline in the other Contracting State, the lessor is not subject to tax by that other Contracting State.

The exemption provided by this Article is also applicable to profits derived from any activities incidental to the operation of ships or aircraft in international traffic. Thus, for example, commissions derived by a Belgian international aircarrier from the sale of passenger tickets in the United States as agent for other persons operating ships or aircraft, if incidental to its own international operations, will be exempt from United States tax under Article 8. Further, a Belgian airline company might have facilities at an international airport in the United States which are used to service and maintain its own aircraft. In order to make maximum use of the facilities, the company might also service and maintain aircraft of other companies. The profits derived from the furnishing of such services to others would be exempt under Article 8 unless such activity ceased to be only an incidental activity. However, income derived by a Belgian airline company from the operation of a hotel in the United States would not be incidental to the operation of aircraft and would not be exempt.

Article 9. ASSOCIATED ENTERPRISES

This Article complements section 482 of the Internal Revenue Code of 1954 and confirms the power of each government to allocate items of income, deduction, credit, or allowances in cases in which a resident of one State is related to a resident of the other State if such related persons impose conditions between themselves which are different from conditions which would be imposed between independent persons. This provision is similar to the provision contained in the OECD Model Convention.

Provision is made in Article 25 (Mutual Agreement Procedure) for consultation and agreement between the two States where an allocation by either State results or would result in double taxation.

Article 10. DIVIDENDS

The existing Convention provides that dividends derived from sources within one State by a resident of the other State not having a permanent establishment in the former State will be subject to tax in the former State at a rate not in excess of 15 percent. The proposed Convention continues the 15 percent rate on dividends.

As indicated above, the proposed Convention abandons the "force of attraction" concept in the existing Convention by providing that the reduced rate of tax on dividends is denied only if the shares with respect to which the dividends are paid are effectively connected with a permanent establishment which the recipient has in the State of source. The elimination of the "force of attraction" principle will make uniform the rate of tax levied on dividend income by a resident of one State from sources within the other State unless such income is effectively connected to a permanent establishment in the State of source. In those cases where the shares with respect to which the dividends are paid are so effectively connected, the dividends may be taxed as industrial and commercial profits under Article 7 (Business Profits). Income which is so effectively connected may be taxed at the normal rates applicable to such income in the State of source. However, this does not prevent Belgium from imposing its movable property prepayment in accordance with Belgian law, and this would be credited against the tax owed by the permanent establishment.

The dividend Article of the proposed Convention is patterned generally after the OECD Model Convention. However, the proposed Convention additionally provides that the term "dividends" includes income from invested capital received by members of Belgian companies other than companies with share capital where, under Belgian law, such income is taxable in the same way as dividends. These are companies whose shareholders are restricted to individuals and are generally similar to partnerships. Such companies are not entitled to an interest deduction on a loan made by a shareholder to the company. Interest payments by such a company to a shareholder are treated similarly to dividends for purposes of Belgian law and are treated as dividends under the proposed treaty. The companies covered by this latter rule are Societes de Personnes a Responsabilite Limitee, Societes en nom Collectif Societes en Commandite Simple, and Societes Cooperatives.

Under Belgian law dividends paid to an individual from sources outside of Belgium which are received within Belgium are subject to a 20-percent precompte mobiliere. The precompte is used by Belgium as a collection device since most securities are in bearer form and the residency of the owner is not readily determinable. Belgium has agreed under this Article to waive collection of the precompte on dividends paid by United States corporations to an individual who is a resident or citizen of the United States and not a resident of Belgium. Such individual when he goes to a Belgian bank to collect on a dividend will have to substantiate his citizenship and residency and it is anticipated that the Belgian Government will verify the fact that such person is the proper recipient of the dividend by submitting their names to the Internal Revenue Service.

In other cases, dividends paid by a corporation of one of the States to a person other than a resident of the other State are exempt from tax by the other State unless the dividends are effectively connected with a permanent establishment of the recipient maintained in the other State or the dividends are paid by a United States corporation and are received within Belgium by a person other than a citizen or resident of the United States.

Article 11. INTEREST

The existing Convention provides that interest derived from sources within one State by a resident of the other State not having a permanent establishment in the former State will be subject to tax in the former State at a rate not in excess of 15 percent.

The proposed Convention retains the 15 percent rate on interest replacing the "force of attraction" principle by the effectively connected approach. In four important cases, however, the proposed Convention provides for exemption in the State of source. First, interest is exempt at source if it arises out of commercial credit--including credit which is represented by commercial paper--resulting from deferred payments for goods or merchandise or services supplied by a resident of one of the States to a resident of the other State. This exception would apply to interest derived by a bank or other financial institution which purchases paper which arose out of commercial credit which the seller of goods or services discounted at such bank or financial institution. It would also apply to interest derived by a finance company which is a subsidiary of a selling company and which is used by the parent to finance its sales. Second, interest paid between banks is exempt except on loans represented by bearer instruments. Under this provision, interest on advances between banks would be exempt as would interest on loan from a United States bank to a Belgian bank, assuming that there was not a bearer instrument representing the indebtedness. Third, an exception is provided for interest arising from deposits, not represented by bearer instruments, made in banks or other financial institutions. Fourth, interest beneficially derived by one of the States, or by an instrumentality of that State, not subject to tax by that State on its income, would be exempt from tax by the other State. Under this rule, interest income derived by the Export-Import Bank of the United States on loans made to Belgian residents would be exempt from tax in Belgium. This would still be the case if the Export-Import Bank sold interest-participation certificates on such a loan. On the other hand, this rule would not apply if the Export-Import Bank discounted or sold the instrument representing the loan. However, in such a case the exception for interest arising out of commercial credit may be applicable.

As noted above in connection with the dividend Article, the proposed Convention abandons the"force of attraction"principle. Thus, the reduced rates of tax applicable to interest apply unless the recipient has a permanent establishment in the State of source and the indebtedness giving rise to the interest is effectively connected with such permanent establishment. In such a case, the interest may be taxed as industrial or commercial profits.

Interest is defined generally as income from any kind of debt-claim or any income treated as interest under the tax law of the State of source. In cases in which excessive interest is paid by reason of a special relationship between the payor and the recipient, the provisions of the interest Article do not apply to the excess part of the payments. Excess interest payments may be taxed according to the law of the State from which the interest is derived. In the case of excess interest derived from the United States, the excess interest may be taxed as dividend. Under Belgian law, the excess interest is disallowed as a deduction, but, in the hands of the recipient, continues to retain its character as interest. However, the recipient is not entitled to the benefits of this Article with respect to such excess.

Thus, for example, in the case of the United States the rules provided in section 482 of the Internal Revenue Code would be applicable if excess interest is paid between related persons. On the other hand, if a Belgian resident pays excess interest to a United States related person, the Belgian tax authorities would disallow such excess as a deduction to the Belgian resident, and would continue to treat such excess as interest, and subject such excess to the 20-percent rate of withholding, as provided under Belgian domestic law, since such excess is not entitled to treaty benefits.

The term "interest" does not include amounts which are considered as dividends as discussed above in connection with Article 10 (Dividends). In the case of Belgium, the term "interest" includes prizes on lottery bonds.

Interest is from sources within a State when the payor is that State, a political subdivision, a local authority thereof, or a resident of that State. However, if the payor (who is not a resident of one of the Contracting States) has a permanent establishment in one of the States and the indebtedness on which the interest is paid is effectively connected with such permanent establishment and the interest is borne by such permanent establishment, such interest shall be deemed to be sourced within the State in which the permanent establishment is located.

In other cases, interest paid by a corporation of one of the States to a person other than a resident of the other State is exempt from tax by the other State unless the interest is effectively connected with a permanent establishment of the recipient maintained in the other State or the interest is paid by a United States corporation and is received within Belgium by a person other than a citizen or resident of the United States.

As in the case of dividends, the interest Article also contains a special rule dealing with interest from sources within the United States which is received within Belgium by a resident of the United States or a citizen of the United States who is not a resident of Belgium. In such a case Belgium has agreed to waive its withholding tax. In addition, if a permanent establishment which a resident of one of the Contracting States has in a third State borrows money from a resident of the other Contracting State, for purposes of the treaty, the interest paid by the permanent establishment will be treated as from sources within the third State if the loan effectively connected with, and interest is borne by, such permanent establishment.

Article 12. ROYALTIES

The existing Convention provides that royalties derived from sources within one of the States by a resident of the other State shall be exempt from tax by the former State. The proposed Convention continues this exemption for royalties.

The term "royalties" is defined to include (a) payments of any kind made as consideration for the use of, or the right to use, copyrights of literary, artistic, or scientific works (but not including copyrights of motion picture films or films or tapes used for radio or television broadcasting), patents, designs, models, plans, secret processes or formulae, trademarks, or other like property or rights, or knowledge, experience, or skill (know-how) and (b) gains derived from the sale or exchange of such rights or property, but only if payment is contingent on productivity, use, or disposition of the property. If the payments are not so contingent, the capital gains Article applies.

The provisions of this Article do not apply if the recipient of a royalty has a permanent establishment in the State of source and the rights or property giving rise to the royalty is effectively connected to such permanent establishment. In such a case, the royalty may be taxed as industrial or commercial profits under Article 7 (Business Profits). Thus, the "force of attraction" principle is also abandoned with respect to royalties.

The source rule on royalties is different from the source rule found in most of our recent treaties and the rule in section 861 (a) (4) of the Internal Revenue Code. The proposed Convention provides that royalties shall be treated as income from sources within one of the States if paid by such State, a political subdivision, or a local authority thereof, or by a resident of that State. However, (a) if the person paying the royalty is not a resident of either Contracting State and has a permanent establishment in one of the States with which the right or property giving rise to the royalty is effectively connected and such royalties are borne by such permanent establishment, or (b) if the person paying the royalty is a resident of one of the Contracting States and has a permanent establishment in a third State with which the right or property giving rise to the royalty is effectively connected and such royalties are borne by such permanent establishment--such royalties are deemed to be from sources within the State in which the permanent establishment is located. This source rule is similar to the interest source rule found in Article 11 (Interest) of the proposed Convention and to the source rule for royalties under Belgian domestic law. On the United States side, since royalties are exempt at source, the source rule on royalties is relatively unimportant. However, on the Belgian side, because of the treatment given under Belgian law for excessive royalty payments, the source of the royalty has importance. Under the proposed Convention, if excessive royalties are paid because the payor and the recipient are related, the provisions of the royalty Article apply only to so much of the royalty as would have been paid to an unrelated person. The excess payment may be taxed according to its own law by the State from which the royalty is derived. In the case of Belgium, Belgium would deny a deduction for the excess royalty payments, but, in the hands of the recipient, the payment would still be considered to be a royalty under Belgian domestic law. However, the recipient is not entitled to the benefits of this article with respect to such excess.

If a nonresident has a permanent establishment in Belgium or the United States, royalties attributable to (effectively connected with) such permanent establishment are not subject to withholding but are subject to tax in Belgium or the United States at the rates normally applicable to industrial or commercial profits.

Article 13. CAPITAL GAINS

The existing Convention provides no special rules for gains derived in one State from the sale or exchange of stock, securities, commodities, or other capital assets by a resident of the other State. The proposed Convention provides that such gains shall be exempt from tax by the State of source. However, the exemption does not apply if (1) the gain derived by a resident of one State arises out of the sale or exchange of property described in Article 6 (Income from Real Property) which is situated within the other State, (2) the recipient of the gain has a permanent establishment or maintains a fixed base in that other State and the property giving rise to the gain is effectively connected with such permanent establishment or such fixed base, or (3) the recipient of the gain being an individual resident of the first State is present in that other State for a period or periods aggregating 183 days or more in the taxable year. Gains which are effectively connected with a permanent establishment may be taxed as industrial or commercial profits under Article 7 (Business Profits). Gains on real property are subject to the provisions of Article 6 (Income from Real Property) which permits taxation of such gains by the State in which the real property is situated. The Belgians do not tax capital gains of individuals arising from a casual sale of nonbusiness assets.

Article 14. INDEPENDENT PERSONAL SERVICES

The existing Convention provides that an individual resident of one State shall be exempt from tax by the other Stat if he meets either of two conditions: (a) he is present in that other State for not more than 183 days and his compensation is for services performed as a worker or employee of, or under contract with, a resident of the first State who bears the actual burden of the remuneration; or (b) he is temporarily present within that other State for a period or periods not exceeding 90 days during the calendar year and the compensation received for such services does not exceed $3,000 in the aggregate. The 90-day, $3,000 rule under the existing Convention does not apply to remuneration of "administrateurs," "commissaires," or "liquidateurs" of, or of other individuals exercising similar functions in, corporations created or organized in Belgium, nor to remuneration of officers and directors of United States corporations.

The proposed Convention generally deals with personal services in two articles and creates a distinction based upon whether the services are independent or dependent personal services. The proposed Convention also provides a special rule for independent individuals who are artists or athletes, and a separate Article dealing with directors' fees. Thus, for example, a doctor or lawyer typically renders independent personal services. Also an entertainer who under common law concepts is an independent contractor is considered as rendering independent personal services.

Generally, under Article 14 of the proposed Convention, income earned by an individual resident of one State from independent personal services performed in the other State may not be taxed in that other State. However, such income will be subject to tax in the State of source (i.e., where the services are performed) if the recipient is present in that State for a period or periods aggregating 183 days or more in the taxable year or if the individual maintains a fixed base in that other State for a period or periods aggregating 183 days or more in the taxable year and the income is attributable to such fixed base.

Independent personal services means services performed by an individual for his own account where he receives the proceeds or bears the losses arising from such services. Commercial, industrial, or agricultural activities are not considered independent personal services and the income therefrom is taxed as industrial or commercial profits under Article 7 (Business Profits).

Thus, for example, if a physician, resident in one State, has an office available in the other State for a period aggregating 183 days or more during the taxable year, the income he earns from the performance of services within the other State will be subject to tax in that other State regardless of whether he is physically present in that other State for 183 days or more during the taxable year and regardless of whether others make use of his office in his absence.

An individual who derives income from independent personal services as a public entertainer is nevertheless subject to tax in the other State if his stay in such State exceeds 90 days during the taxable year or his income is in excess of $3,000 or its equivalent in Belgian francs during the taxable year.

Article 15. DEPENDENT PERSONAL SERVICES

Generally, under the proposed Convention income from labor or personal services as an employee may be taxed in the State in which such labor or personal services are performed (except as provided in Article 20 (Teachers) and Article 21 (Students and Trainees)). However, such income will be exempt from tax in the State of source if (1) the recipient, being a resident of one of the Contracting States, is present in the State of source for a period or periods aggregating less than 183 days during the taxable year; (2) the recipient is an employee of a resident of the State of his residence (or a permanent establishment located in the State of his residence); and (3) the remuneration is not borne as such by a permanent establishment which the employer has in the State of source. Thus, the rule applicable to dependent personal services is similar to that contained in the existing Convention. However, income from personal services performed in Belgium by a United States resident who is employed by a Belgian permanent establishment maintained by a United States corporation would no longer be exempt from tax in Belgium (nor would there be an exemption from United States tax in the reverse situation). In addition, the proposed Convention would eliminate the rule in the existing Convention generally exempting a resident of one State from taxation by the other State of compensation received for services performed in the other State where such resident is temporarily present in the other State for a period aggregating 90 days or less during the taxable year and the compensation received for such services is not in excess of $3,000. The proposed Convention also adds a rule that income from personal services aboard ships or aircraft registered in one State and operated by a resident of that State in international traffic will not be taxed in the other State so long as the services are rendered by a member of the regular complement of the ship or aircraft.

This Article of the proposed Convention is substantially similar to the OECD Model Convention except that, under the proposed Convention, an individual temporarily present in one State who is an employee of a permanent establishment located in the other State and maintained by a corporation of the first-mentioned State will be exempt from taxation by the first-mentioned State on wages earned while temporarily present therein if the other requirements are met.

Article 16. DIRECTOR'S FEES

Under the existing Convention, compensation received by an individual who is a resident of one State as a director of a corporation of the other State is taxable by the other State. This result is obtained by the exclusion of such individuals from the 90-day, $3,000 rule. The proposed Convention continues this treatment, in part, in a specific Article dealing with the treatment of director's fees. The Article provides that a director's fee derived by an individual who is a resident of one of the States in his capacity as a member of the board of directors of a corporation of the other State may be taxed by the other State. This rule is limited to fees which an individual receives as a director as contrasted to fees that he might receive as an officer or employee of a corporation, by providing that a director's fee does not include fixed or contingent payments derived by an individual in his capacity as an officer or employee of a corporation. Further, to be a director's fee the payment must be of the type which cannot be taken as a deduction by the corporation paying the fee but is treated as a distribution of profits. These types of payments are typically made by Belgian corporations.

Director's fees taxable by Belgium under this Article are treated as Belgian source income for purposes of the United States foreign tax credit limitation regardless of where such services as a director are performed. This rule, which differs from the normal United States source rule, is designed to avoid double taxation.

Article 17. SOCIAL SECURITY PAYMENTS

This Article provides that social security payments paid by one State to an individual who is a resident of the other State will be taxed, if at all, by the payor State. Also included under this Article are other public pensions such as railroad retirement benefits. Neither the existing Convention nor the OECD Model Convention contains a comparable provision.

Article 18. PRIVATE PENSIONS AND ANNUITIES

The existing Convention provides that private pensions and annuities derived from sources within one State by an individual resident of the other State are exempt from tax in the State of source. The proposed Convention continues the existing rule by providing that pensions and other similar remuneration paid in consideration of past employment and annuities received by a resident of a State will be taxable only in the State of residence. However, pensions coming within the scope of Article 19 (Governmental Functions) will be taxable only by the State making payment.

The proposed Convention also provides that alimony paid to a resident of a State will be taxable only in the State of residence. A United States resident making alimony payments to a Belgian resident may deduct such payments (unless section 71 (d) or 682 of the United States Internal Revenue Code applies).

The term "annuities" is defined as a stated sum paid periodically at stated times during life, or during a specified number of years, under an obligation to make the payments in return for adequate and full consideration (other than for services rendered). The term "pensions" is defined as periodic payments made after retirement or death in consideration for services rendered, or by way of compensation for injuries received in connection with past employment.

The effect of this provision is generally the same as that of the OECD Model Convention.

Article 19. GOVERNMENTAL FUNCTIONS

The existing Convention exempts compensation including pensions and annuities paid by one of the States or a political subdivision or territory thereof to a citizen of that State residing in the other State (whether or not also a citizen of the other State) from taxation by that other State. The proposed Convention continues the exemption but adds a specification that the compensation must be paid in connection with the discharge of functions of a governmental nature. Compensation paid in connection with industrial or commercial activity is treated the same as compensation received from a private employer. The provisions relating to dependent personal services, private pensions and annuities, and social security payments would apply in such a case.

The proposed Convention extends the category of individuals who are eligible for the exemption to citizens of a third State who come to a State expressly for the purpose of being employed by the other State, a political subdivision, or a local authority thereof.

Article 20. TEACHERS

The existing Convention provides that teachers who are citizens of one State and who, pursuant to agreements between the States or teaching establishments in the States, accept a teaching position at an educational institution in the other State shall be exempt from taxation in such other State on remuneration received for such teaching, for a maximum period of two years.

The proposed Convention continues and broadens the 2-year exemption period for visiting teachers. This exemption applies to an individual who is a resident of one State at the time he is invited by the other State or by a recognized educational institution of the other State to teach or do research in the other State and temporarily comes to such other State in order to engage in such teaching or research. Invitation may be by the Government or a university or other recognized educational institution. For purposes of the United States, the term "recognized" will be construed to mean accredited. However, the exemption does not apply to income from research undertaken not in the public interest but primarily for private benefit of a specific person or persons. If the individual's visit exceeds a period of 2 years from the date of arrival, the exemption applies to the income received by the individual before the expiration of such 2-year period. Under this provision an individual who has been a student or trainee and has been receiving the benefits of exemption under Article 21 (Students and Trainees) will not generally be entitled to the benefits of this Article if he subsequently becomes a teacher in the other State since one of the requirements of this Article is that the individual must be a resident of the first State at the time of his invitation to teach in the other State.

Article 21. STUDENTS AND TRAINEES

Under the existing Convention remittances received from within one State by citizens of the other State residing in the first-mentioned State for the purpose of study are exempt from tax by the other State. The OECD Model Convention includes a similar provision.

The proposed Convention expands the exemption available to students by providing that an individual who is a resident of one State at the time he becomes temporarily present in the other

State for the purpose of studying at a university or other recognized institution, of securing training for qualification in a profession or of studying or doing research as a recipient of a grant, allowance, or award from a governmental, religious, charitable, scientific, literary, or educational institution is exempt from tax in the host State on:

(1) Gifts from abroad for his maintenance and study;

(2) The grant, allowance, or award;

(3) Income from personal services performed in the host State not in excess of $2,000 (or its equivalent in Belgian francs) for any taxable year.

These exemptions continue for such period of time as may be reasonably or customarily required to effectuate the purpose of his visit but in no event may an individual have the benefit of this Article and Article 20 (Teachers) for more than a total of 5 taxable years from the date of arrival.

In addition, a resident of one State employed by or under contract with a resident of that State who, at the time he is a resident of that State, becomes temporarily present in the other State for the purpose of studying or acquiring technical, professional, or business experience is exempt from tax in the host State on income not in excess of $5,000 (or its equivalent in Belgian francs) from personal services rendered in the host State. The individual is exempt for a period of 12 consecutive months which period commences with the first month in which he begins working or receives compensation.

Also, an individual who is a resident of one State and who is temporarily present in the host State as a participant in a government program of the host State for the primary purpose of training, research, or study is entitled to an exemption by the host State with respect to his income from personal services relating to such training, research, or study performed in the host State in an amount not in excess of $10,000 United States dollars (or its equivalent in Belgian francs). To be entitled to this exemption the program must be a program which does not exceed 1 year in duration. If this qualification is met then the income from personal services received with respect to such program is exempt.

If an individual qualifies for the benefits of more than one of the provisions of the personal services Article 5, he may choose the provision most favorable to him but he may not claim the benefits of more than one provision as a means of avoiding the limitations provided.

Article 22. INCOME NOT EXPRESSLY MENTIONED

This Article of the proposed Convention contains a general rule that items of income of a resident of one of the States which are not expressly mentioned in the foregoing articles of the proposed Convention shall be taxable only in that State except that, if such income is derived from sources within the other State, that other State may also tax such income. This rule provides for the same result as found in paragraph (1) of Article 22 (General Rules of Taxation) of our French Convention which provides that any income from sources within a State to which the Convention is not expressly applicable will be taxable by that State in accordance with its own law. For example, because income from prizes or awards is not generally covered by the Convention, such income will ordinarily be taxed in accordance with the internal law of the State from which such income is derived. However, this Article does not apply to industrial and commercial profits attributable to a permanent establishment since such income is expressly covered in Article 7 (Business Profits). The existing Convention does not contain an express statement of this general rule. The OECD Model Convention differs on this point and provides that income which is not expressly mentioned will be taxable only in the State of residence. In any event it should be noted that the proposed Convention specifically covers most types of income.

Article 23. RELIEF FROM DOUBLE TAXATION

Under the existing Convention the United States provides relief from double taxation by allowing a credit for Belgian tax which credit shall not exceed that proportion of the United States tax which the net income from sources within Belgium bears to the total net income of such citizen or resident.

The proposed Convention employs the same method of avoiding double taxation. It provides that subject to the provisions of United States law applicable for the taxable years, a credit against United States tax will be allowed to a citizen or resident of the United States for Belgian tax paid. The credit is based upon the amount of tax paid to Belgium but will not exceed the amount of United States tax attributable to such income. Except for the special source rules provided by the Convention this provision does not add to the rights which a United States citizen or resident has to the foreign tax credit, but is for the purpose of giving treaty recognition to such rights. Modifications in United States law after the effective date of the Convention which concern the foreign tax credit will be applicable with respect to Belgium source income if such modifications do not contravene the general principle of the Convention.

The proposed Convention also contains the traditional savings clause under which the United States reserves the right to tax its citizens and residents as if the Convention had not come into effect. However, the savings clause does not apply in several cases in which its application would contravene policies reflected in the Convention. Thus, the savings clause does not affect the provisions with respect to the foreign tax credit, social security payments, nondiscrimination, or mutual agreement procedure. Moreover, the savings clause will not deny the benefits of the Convention to governmental employees or teachers or students unless such individuals are citizens of the United States or have immigrant status in the United States.

In the case of Belgium the Article provides a detailed procedure for the avoidance of double taxation. Generally, the method used is the exemption method but in some circumstances, it is the credit method. This system of avoidance of double taxation is similar to that found in the existing Convention. The provisions are based upon the law of Belgium relating to the imposition of tax on Belgians receiving income from outside Belgium. However, under this Article, present Belgian statutory law is liberalized with respect to (1) United States source dividends received by a Belgian corporation, (2) United States source business and personal services income. and (3) certain items of United States source income received by a citizen of the United States who is a resident of Belgium. These provisions are contained in paragraph (3) of Article 23 of the proposed Convention. Subparagraph (a) of paragraph (3) corresponds to subparagraph (f) of paragraph (3) of Article 12 of the existing Convention. Under this provision, items of income which are not subject to the provisions of subparagraphs (b) through (d) and which have been taxed by the United States in accordance with the provisions of Articles 6 through 21, are exempt by Belgium from tax. But, Belgium may take such items of income into account for the purpose of determining the rate of tax which is to be applied against the remaining income. The items of income included in this provision are (1) industrial and commercial profits subject to United States tax by reason of their being attributable to the maintenance by the taxpayer of a permanent establishment in the United States; (2) income from real property situated in the United States; (3) salaries, pensions, and annuities paid by the United States or by any political subdivision thereof to United States citizens or other individuals who qualify for the governmental exemption and reside in Belgium; (4) compensation for labor or personal services performed in the United States and taxed by the United States in accordance with the dependent or independent personal services Articles, and (5) any other business or personal service income which may be taxed by the United States in accordance with the Convention. Also included within the scope of subparagraph (a) are items of income that are covered by subparagraph (g) of the existing Convention. These items are interest, dividends, and royalties which are taxed by the United States by reason of the fact that they are effectively connected with a permanent establishment in the United States maintained by a Belgian taxpayer.

Subparagraph (b) conforms generally to subparagraphs (c) and (d) of the existing Convention. Subparagraph (b) grants a credit based upon existing Belgian law subject to any subsequent modification thereof which, however, may not affect the principles of existing law, for dividends received by an individual and interest and royalties received by any resident of Belgium. The credit is allowed against the tax imposed on the net amount of dividends from corporations in the United States as well as of interest and royalties from sources in the United States which have been taxed there. At the present time the credit is an amount equal to 15 percent. This is fixed by Belgian law regardless of the amount of tax paid.

Subparagraph (c) is a new provision dealing with income not expressly mentioned which is taxable by the State of source under Article 22 (Income Not Expressly Mentioned). Under this provision where a resident of Belgium receives income which has been taxed by the United States under Article 22 (Income Not

Expressly Mentioned) the amount of Belgian tax proportionately attributable to such income shall not exceed the amount which would be imposed in accordance with Belgian law if such income were taxed as earned income derived from sources outside Belgium and subject to foreign tax. In the case of corporations, the rate would be one-fourth the normal rate. In the case of individuals, the rate would be one-half the normal rate.

Subparagraph (d) corresponds to subparagraph (a) of the existing Convention. This provision has the effect of incorporating into the Convention the present statutory treatment of corporations or other entities. It provides that dividends taxed by the United States under paragraph (2) of Article 10 (Dividends) of the Convention at the reduced 15-percent rate shall be exempt from Belgian corporate income tax to the extent that such exemption would be granted under Belgian law if both corporations were Belgian corporations subject to the Belgian corporate income tax. The Belgian law to be applied is the Belgian law applicable at the time the dividends were received by the Belgian corporation. Under present Belgian law the amount of the exemption is 95 percent (90 percent in the case of portfolio holding companies) of the amount of the dividend after reduction for all taxes including the United States withholding tax and the Belgian personal property prepayment (precompte mobilier). This provision does not prohibit the withholding from these dividends of such precompte as imposed by Belgian law. The present rate of tax is 10 percent of the amount of the dividend actually received by the Belgian corporation.

Subparagraph (e) corresponds generally to subparagraph (b) of the existing Convention and provides an exception in favor of United States source dividends to the rules provided in subparagraph (d) dealing with the imposition by Belgium of the tax on dividends (precompte mobiler) received by a Belgian corporation or other entity subject to Belgian corporate tax. This exception is in addition to the exemption provided in subparagraph (d). Under this provision a Belgian corporation which receives dividends from a United States corporation on stock which has been directly owned by that Belgian corporation during the whole of the accounting period of the United States corporation which is subject in the United States to tax on its profits may elect to have such dividends exempted from the Belgian personal property prepayment (precompte mobilier) ordinarily applicable to such dividends. A Belgian corporation may elect this treatment by making a written request for such exemption when filing its annual tax return or before the expiration of the period allowed for the filing of such return. Under this provision the Belgian corporation deriving a dividend from a United States corporation (after the withholding of United States tax at the source at the 15-percent treaty rate) (1) will not be required to pay the personal property prepayment otherwise due on receipt, and (2) will be permitted to calculate its statutory corporate income tax exemption (as provided in subparagraph(d) on the full dividend received. This permits the qualified Belgian corporation receiving dividends from United States corporations to accumulate or reinvest a larger portion of such dividends than would be the case under Belgian law in the absence of this treaty provision. However, dividends accorded this exemption can not be deducted for purposes of determining the personal property prepayment applicable to dividends distributed by the recipient corporation or other entity to its shareholders or members. This provision differs from the existing provision in that, if Belgian legislation ever imposed a 10-percent ownership requirement for eligibility of the 90 and 95 percent dividend exemption for intercorporate dividends, then such similar 10-percent ownership requirement would also apply in order for a Belgian corporation to obtain the benefits of this provision.

Subparagraph (f) is generally comparable to subparagraph (e) of the existing Convention. This provision contains special relief with respect to certain income derived by a citizen of the United States who is a resident of Belgium and thus liable to income tax in both States on a worldwide basis. The existing provision provides that the Belgian individual income tax proportionately attributable to dividends, interest, pensions, annuities, or royalties received by a citizen of the United States residing in Belgium from sources within the United States may not exceed 15 percent of that income after allowance of the lump sum foreign tax credit. Though residence in Belgium would ordinarily entitle individuals to an exemption from, or reduction in rate of, United States tax on specified items of income under the Convention, such benefits are not available to United States citizens. The existing and proposed provisions provide a measure of relief in these circumstances by reducing the amount of Belgian tax which can be imposed on the specified items of income. The proposed provision provides that the Belgian income tax proportionately attributable to the dividends, interest, or royalties received by a citizen of the United States residing in Belgium from sources within the United States may not exceed 20 percent of that income after allowance of the lump-sum foreign tax credit. The existing provision was based on a personal property prepayment at the rate of 15 percent, which is now 20 percent. In the case of other income concerned, the amount of tax which would be imposed is the amount which would be imposed if such income were taxed as earned income derived from sources outside Belgium and subject to a foreign tax. This provision only applies to income which is not exempt from Belgian tax under subparagraph (a) or covered by subparagraph (c) which covers items of income not expressly mentioned.

Subparagraph (g) generally corresponds to subparagraph (h) of the existing Convention. Proposed subparagraph (g) provides that when, in accordance with Belgian law, losses incurred by a resident of Belgium in a permanent establishment situated in the United States have been effectively deducted from the profits of that resident for purposes of his taxation in Belgium, the exemption provided in subparagraph (a) should not apply in Belgium to the profits of other taxable periods attributable to the permanent establishment to the extent that those profits have also been reduced for United States tax purposes by reason of allowance of such losses.

Paragraph (4) provides for relief from double taxation in accordance with the principles of paragraphs (2) and (3) in the case of a corporation which is treated as a United States corporation for United States tax purposes and a Belgian corporation for Belgian tax purposes.

Article 24. NONDISCRIMINATION

Paragraph (3) of Article 20 of the existing Convention provides that citizens or corporations or other juridical persons of one State will not be subjected to more burdensome taxes in the other State than are imposed on the citizens or corporations or other juridical persons of such other State. The proposed Convention substitutes a modernized nondiscrimination Article which bans discrimination by one State against the citizens of the other State or permanent establishments of residents or corporations of the other

State. Thus, for example, a citizen of Belgium who is a resident of the United States and who meets the requirements specified in section 911 of the Internal Revenue Code would, under this Article of the proposed Convention, be eligible for the benefits of section 911 although he is not also a citizen of the United States.

This Article provides, however, that a State may accord special treatment to its own residents on the basis of civil status or family responsibility.

This Article also deals with the fact that Belgian domestic law provides for a lower rate on distributed earnings of a Belgian corporation (30% basic rate) than on retained earnings of a Belgian corporation (up to 35% basic rate) and applies only the higher rate to the income of a Belgian permanent establishment of a foreign corporation. This is recognized as discriminatory and the proposed Convention provides that in the case of a Belgian permanent establishment of a United States corporation the lower rate for retained earnings will apply to that part of the earnings of the permanent establishment deemed distributed.
It is provided in this Convention that the permanent establishment is deemed to distribute the same percentage of its earnings as the corporation of which it is

a part distributes of its earnings. The provision permits Belgium, however, to impose its surcharge on the hiqher rate consistent with its domestic law.

The ban on discrimination extends to all taxes without regard to subject matter and whether imposed at the national, State or local level.

This Article is substantially similar to the nondiscrimination Article of the OECD Model Convention except that the Model includes a provision concerning Stateless persons which has been omitted from the proposed Convention.

Article 25. MUTUAL AGREEMENT PROCEDURE

This Article modernizes the mutual agreement procedures found in the existing Convention by adopting provisions similar to those in the recent amendments to our Conventions with the Netherlands, the United Kingdom, and the Federal Republic of Germany and in our recently revised Convention with France.
When a resident of one State considers that action of one or both States has resulted, or will possibly result, in taxation contrary to the provisions of the proposed Convention, such resident may present his case to the competent authority of the State of which he

is a resident within 2 years from the date the resident is notified (or collection is made at the source) of the tax (or, where the problem arises from inconsistent action of both States, within two years from the date the resident is notified or from collection at source of the tax which has been last asserted or collected). This remedy is in addition to any remedy provided by the national laws of either State.

This Article contemplates that the competent authorities of the two States will endeavor to settle by mutual agreement such cases of taxation not in accordance with the Convention as well as any other difficulties or doubts arising as to the application of the Convention. Some particular areas on which the competent authorities may consult and reach agreement are the amount of industrial and commercial profits to be attributed to a permanent establishment, the allocation of income, deductions, credits, or allowances between a resident and a related person, the determination of source of particular items, and the meaning of any term used in the Convention.

In implementing the provisions of this Article, the competent authorities will communicate with each other directly and meet together for an exchange of oral opinions when advisable.

In cases in which the competent authorities reach agreement with respect to a particular matter, taxes will be adjusted and refund or credits allowed in accordance with such agreement. This provision permits the issuance of a refund or credit notwithstanding procedural barriers otherwise existing under a State's law, such as the Statute of Limitations.

This provision will apply only where agreement or partial agreement has been reached between the competent authorities and will apply in the case of any such agreement after the Convention goes into effect even though the agreement may concern taxable years prior thereto.

Revenue Procedure 70-18 sets forth the procedure followed by the United States in implementing its obligations under this type of Article.

Article 26. EXCHANGE OF INFORMATION

This Article provides for a system of administrative cooperation between the competent authorities of the two States and specified conditions under which information may be exchanged to faciliate the administration of the Convention and to prevent fraud and the avoidance of taxes to which the Convention relates.

Information exchanged is treated as secret and may not be disclosed to any persons other than those (including a court or administrative body) concerned with the assessment, collection, enforcement, or prosecution of taxes subject to the Convention, but this does not prohibit incidental disclosure in the course of a court proceeding. In no case does this Article impose an obligation on either State to disclose trade secrets or similar information or to carry out administrative measures or supply particulars where such action would be at variance with the laws or administrative practice of that State, or contrary to public policy. In general, the standard for the exchange of information is the standard used by the States in the enforcement of their own laws by administrative and judicial authorities.

The mutual exchange of information called for by these provisions is presently in effect in most of the conventions to which the United States is a party and is substantially similar to the provision contained in the existing Convention.

Article 27. ASSISTANCE IN COLLECTION.

This Article, substantially similar to the assistance in collection Article in the existing Convention, provides for mutual assistance in the collection of taxes where required to avoid an abuse of the Convention. The provision is intended merely to insure that the benefits of the Convention will only be available with respect to persons entitled to such benefits; it does not in any way alter rights under other provisions of the Convention.

The Article provides that each State will endeavor to collect for the other State such amounts as may be necessary to insure that any exemption or reduced rate of tax granted under the proposed Convention will not be availed of by persons not entitled to those benefits. However, this Article will not require a State, in order to collect taxes which are imposed by the other State, to undertake any administrative measures that differ from its internal regulations or practices nor will this Article require a State to undertake any administrative or judicial measures which are contrary to that State's sovereignty, security, or public policy.

Article 28. MISCELLANEOUS

This Article contains provisions normally found in other parts of tax conventions to which the United States is a party. Paragraph (1) is identical to Article 28 of the French Convention. This paragraph preserves the existing fiscal privileges of diplomatic and consular officials under the general rules of international law or under the provisions of special agreements. Paragraph (2) is substantially identical to paragraph (3) of Article 22 of the French Convention. This continues the general rule of taxation found in most tax conventions that the Convention does not affect in any manner any exclusion, exemption, deduction, credit, or other allowance now or hereafter accorded by the laws of a State in the determination of tax imposed by that State, or by any other agreement between the States. Even though the OECD Model Convention does not contain a comparable provision, this rule reflects the well-established principle that the Convention will not have the effect of increasing the tax burden on residents of the signatory countries. This rule represents the position of the United States under all conventions to which it is a party except that, to the extent a Convention specifically provides, it may be necessary to waive certain rights as a condition of claiming more advantageous treaty benefits. Paragraph (3) provides that the competent authorities of the two States may communicate with each other directly for the purpose of carrying out the provisions of this Convention.

Article 29. EXTENSION TO TERRITORIES

This Article provides a method for extending the Convention, either in whole or in part or with such modifications as may be found necessary for special application in a particular case, to all or any areas for whose international relations the United States is responsible and which area imposes taxes substantially similar in character to those which are the subject of the Convention. It is limited to extension by the United States since Belgium no longer has any colonies or territories.

Extension to an area may be accomplished through a written notification given to Belgium through diplomatic channels. Belgium shall indicate its acceptance by a written communication through diplomatic channels. When the notification and communication have been ratified in accordance with the constitutional procedures of each State and instruments of ratification exchanged, the extension will take effect from the date of, and be subject to such conditions as are specified in, the notification. Without such acceptance and exchange of instruments of ratification in respect of an area, nore of the provisions of the Convention shall apply to such areas.

Either of the States may terminate an extension with respect to an area by 6 months' prior written notice of termination given to the other State at any time after the date of entry into force of the extension. The termination will take effect for taxable years beginning on or after the first day of January next following the expiration of the 6-month period. The termination of an extension to a particular area will not affect the application of the Convention to the United States, Belgium, or any other area to which the Convention has been extended.

Termination of the Convention by either State in accordance with Article 31 (Termination) shall, unless otherwise expressly agreed by both States, terminate the application of the Convention to any area to which the Convention has been extended under this Article.

Article 30. ENTRY INTO FORCE

This Article provides for the ratification of the proposed Convention and for the exchange of instruments of ratification. The Convention will enter into force one month after the date of exchange of such instruments. However, the provisions shall first have effect with respect to income of calendar years or taxable years beginning (or in the case of taxes payable at source, payments made) on or after January 1, 1971.

The entry into force of the proposed Convention will terminate the Convention of October 28, 1948, the Supplementary Conventions of September 9, 1952, and August 22, 1957, as well as the Protocol of May 21, 1965.

Article 31. TERMINATION

The Convention will continue in effect indefinitely, but may be terminated by either State at any time after the year 1975. A State seeking to terminate the Convention must give notice at least 6 months before the end of the calendar year through diplomatic channels. If the Convention is terminated, such termination will be effective with respect to income of calendar years or taxable years beginning (or, in the case of taxes payable to source, payments made) on or after January 1 next following the expiration of the 6-month period. However, upon prior notice to be given through diplomatic channels, the provisions of Article 17 (Social Security Payments) may be terminated by either State at any time after this Convention enters into force.

October 6, 1970

Technical Explanation of

Proposed U. S. - Finland Income Tax Convention
Signed March 6, 1970

Article 1. TAXES COVERED

This Article designates the taxes of the respective States which are the subject of the proposed Convention. With respect to the United States, the taxes included are the United States Federal income taxes imposed by the Internal Revenue Code. This includes, for example, the surtax and would also include such taxes as the temporary surcharge which was in force from 1968 to 1970. However, the Convention is not intended to apply to taxes which are in the nature of a penalty such as the taxes imposed under section 531 (accumulated earnings tax) and section 541 (personal holding company tax) of the Internal Revenue Code.

With respect to Finland, the taxes included are the State (national) income and capital tax, the Communal tax, and the Sailors' tax. The national income tax is levied at graduated rates on the worldwide income of resident individuals and corporations. The capital tax is levied at graduated rates on the worldwide net wealth of resident individuals and on nonresident individuals owning real property located in Finland, shares ofstock in a Finnish corporation or other personal property exclusive of bonds, bank accounts, and foreign trade credits. The Church tax, a local income tax levied at rates ranging from 1 to 2 percent from members of the Evangelical Lutheran and Greek Orthodox churches and from resident corporations, is not included in the category of taxes covered; it is among the taxes included in the nondiscrimination article, however. The Communal tax, also a local income tax levied against resident individuals and corporations at rates which vary from 8.5 percent to 16 percent, is covered. The Sailors' tax is deducted at the source from compensation of seamen employed abroad Finnish ships. It is imposed in lieu of the State income tax and the Communal tax. The effect of including the Communal and Sailor's taxes in the Treaty is to broaden the Finnish taxes against which Finland will give a credit for United States taxes. It does not expand the credit allowed in the United States since we already give a credit under our statute for these taxes.

The present Finnish Convention includes within the category of Finnish taxes covered only the national income tax.

The present Finnish Convention enumerates within the category of United States taxes covered also the the surtax and excess profits tax. The "surtax" was eliminated as unnecessary and possibly confusing in view of the enactment of the "surcharge"; the excess profits tax has been repealed. In addition, the accumulated earnings and personal holding company tax were specifically excluded from the taxes covered in the proposed Convention in order to avoid uncertainty as to status of these taxes.

Pursuant to paragraph (2) of this Article the proposed Convention would also apply to taxes substantially similar to those enumerated which are imposed, in addition to or in place of the existing taxes, after the date of signature of this Convention (March 6, 1970).

For purposes of Article 7 (Nondiscrimination), the Convention applies to taxes of every kind which are, or may be imposed by the respective States, at the national, State, or local level.

Article 2. GENERAL DEFINITIONS

This Article sets out definitions of certain of the basic terms used in the proposed Convention. A number of important terms, however, are defined elsewhere in the Convention.

Any term used in this Convention which is not defined therein shall, unless the context otherwise requires, have the meaning which it has under the laws of the State which is imposing the tax. The proposed Convention also provides a procedure under which a common definition may be arrived at by the competent authorities of Finland and the United States in order to prevent double taxation or further any other purpose of this Convention, if the definition of such term under the respective internal laws of the States differs. The common meaning is to be arrived at by means of the mutual agreement procedure which is described in Article 28 (Mutual Agreement Procedure) of the proposed Convention.

Article 3. FISCAL DOMICILE

This Article sets forth rules for determining "fiscal domicile" or residence of individuals, corporations and other persons for purposes of the proposed Convention. Residence is important because, in general, only a resident of one of the Contracting States may qualify for the benefits of the Convention. This Article is patterned generally after the fiscal domicile article of the OECD Model Convention.

The term "a resident of Finland" means a corporation of Finland as defined in Article 2 (General Definitions) and any person (except a corporation or any entity which under Finnish law is treated as a corporation) who is a resident of Finland for purposes of its tax. The term "a resident of the United States" means a United States corporation as defined in Article 2 (General Definitions) and any other person (except a corporation or any other entity treated under United States law as a corporation) who is a resident in the United States for purposes of its tax.

The parenthetical language in the definition of a resident of the United States is intended to make clear that a foreign corporation for United States tax purposes, which is a resident of the United States for certain purposes of its income tax law is not, under the Convention, a resident of the United States. A similar rule was needed in the case of Finland.

In the case of the United States and Finland, the definition provides that a person acting as a partner or a fiduciary is a resident only to the extent that the income derived by such person in that capacity is taxed as income of a resident.

This language, although different from the Income Tax Convention between the United States and Belgium, signed July 9, 1970, is intended to achieve the same result. Under United States law, a partnership is never, and an estate or trust is often not, taxed as such. Under the proposed Convention, in the case of the United States, income received by a partnership, estate, or trust will not qualify for the benefits of the Convention unless such income is subject to tax in the United States. Thus, in effect, the status of income which is subject to tax only in the hands of the partners or beneficiaries, will be determined by the residence of such partners or beneficiaries. With respect to income taxed in the hands of the estate or trust, the residence of the estate or trust is determinative. This provision is reciprocal because of the presence of a similar problem under Finnish law.

An individual who is a resident of both States under the rules of domestic law employed by such States for determining residence will be deemed to be a resident of the State in which he has his permanent home, his center of vital interests (closest economic and personal relations), or his habitual abode, in the order listed. If the issue is not settled by these tests, the competent authorities will decide by mutual agreement the one State of which he will be considered to be a resident.

Article 4. GENERAL RULES OF TAXATION

The present Convention sets forth in a separate article the general rules of taxation applicable under the Convention. The general rules of taxation applicable under the proposed Convention are as follows:

A resident of one State may be taxed by the other State only on income from sources within that other State (including industrial or commercial profits attributable to a permanent establishment located in that other State), subject to the limitations set forth in this Convention. The jurisdictional rules of the proposed Convention parallel those set forth in section 872 (a) of the United States Internal Revenue Code, relating to nonresident alien individuals, and section 882 (b), relating to foreign corporations engaged in trade or business in the United States, as amended by the Foreign Investors Tax Act of 1966.

The existing Finnish Convention contains the "force of attraction" doctrine, under which all Finnish source income of a resident of the United States having a permanent establishment in Finland is attributed to the permanent establishment and subject to tax at ordinary rates. In the converse case the existing treaty provides that United States source income of a Finnish resident is subject to United States tax at ordinary rates. However, under the changes in United States statutory law made by the Foreign Investors Tax Act of 1966, only the investment income in fact attributable to the permanent establishment is taxed at ordinary rates. Other United States source income of a foreigner having a permanent establishment in the United States may qualify for the reduced rates provided by a tax convention.

The proposed Convention contains a similar but more inclusive rule. Only that business and investment income effectively connected with the permanent establishment is taxed as part of the income of the permanent establishment and loses the exemptions and reduced rate benefits otherwise provided by the treaties.

Both the proposed Convention and the existing Convention contain the general rule of taxation (also found in our new French Convention) that the Convention does not affect in any manner any exclusion, exemption, deduction, credit, or other allowance now or hereafter accorded by the laws of a State in the determination of tax imposed by that State, or by any other agreement between the States. Even though the OECD Model Convention does not contain a comparable provision, this rule reflects the well-established principle that the Convention will not have the effect of increasing the tax burden on residents of the signatory countries. This rule represents the position of the United States under all Conventions to which it is a party, except that to the extent a convention specifically provides, it may be necessary to waive certain rights as a condition to claiming more advantageous treaty benefits.

The proposed Convention also contains the traditional savings clause under which the United States reserves the right to tax its citizens and residents as if the Convention had not come into effect. However, the savings clause does not apply in several cases in which its application would contravene policies reflected in the Convention. Thus, the savings clause does not affect the provisions with respect to the foreign tax credit, social security payments, nondiscrimination, or mutual agreement procedure. Moreover, the savings clause will not deny the benefits of the Convention to governmental employees or teachers or students unless such individuals are citizens of the United States or have immigrant status in the United States. The savings clause is nonreciprocal because Finland imposes tax on the basis of residence rather than citizenship.

The benefits of paragraph (3) of Article 23 (Rules Applicable to Personal Income Articles) are not excepted from the savings clause. As noted hereinafter, that paragraph provides that a teacher, student, or apprentice of one of the States, temporarily present in the other State and who is entitled to exemption from tax in the other State under the Convention, shall be allowed by the State of residence as deductions from taxable income travel and living expenses (in the minimum amount of 30 percent) incurred while temporarily present in the other State. The purpose of paragraph (3) of Article 23 (Rules Applicable to Personal Income Articles) is to relieve some of the burden of Finnish taxes imposed on Finnish teachers, students, and apprentices who come to the United States to study or work. Although this provision is reciprocal in form, it is not applicable to United States citizens and residents. The taxability of scholarship and fellowship grants and of compensation received by United States citizens and residents who go to Finland to study or work is determined under sections 61, 117, and 911 of the Internal Revenue Code.

The last paragraph of this Article provides that any income from sources within a State to which the Convention is not expressly applicable will be taxable by that State in accordance with its own law. For example, because income from prizes or awards is not covered by the Convention, such income will be taxed in accordance with the internal law of the State from which such income is derived. The existing Convention does not contain an express statement of this general rule. The OECD Model Convention differs on this point and provides that income which is not expressly mentioned will be taxable only in the State of residence. It should be noted that the proposed Convention specifically covers most types of income.

Article 5. RELIEF FROM DOUBLE TAXATION

Under the existing Convention, the United States provides relief from double taxation by allowing a credit for Finnish tax in accordance with rules set forth in section 131 of the Internal Revenue Code of 1939.

The proposed Convention employs the same method of avoiding double taxation in providing that credit will be allowed to a United States citizen or resident for Finnish income tax paid but not in excess of the portion of United States tax which net income from Finnish sources bears to total net income. Except for the special source rules provided by the Convention, this provision does not add to the rights that a United States citizen or resident has to the foreign tax credit, including his right under current law to elect the overall limitation, but is for the purpose of giving treaty recognition to such rights. Modifications in United States law after the effective date of the Convention which concern the foreign tax credit will be applicable with respect to Finnish source income if such modifications do not contravene the general principles of the Convention.

In the case of Finland, generally double taxation will be avoided by a combination of three methods: exemption, tax credit, and exemption with progression. With respect to United State source income (other than dividend income) or capital which under the treaty is taxable in both States paragraph (2) (a) provides that Finland will give a credit against Finnish income or capital tax for the amount of the Finnish income or capital tax attributable to such United States source income or capital. Although written in the form of a credit, the effect of this provision is to exempt from tax in Finland income and capital which under the Convention is taxable in the United States; for example, real property income and personal services income. With respect to United States source dividends (other than intercorporate dividends) paragraph (2) (b) provides that Finland will allow a credit for the United States tax withheld on such dividends but not in excess of that portion of Finnish tax which the United States source dividends bear to total Finnish taxable income. Under Finnish law intercorporate dividends are tax exempt. Paragraph (2) (c) of the proposed Convention extends this exemption to dividends paid by a United States subsidiary to a Finnish parent corporation as long as Finland retains the rule of exemption for intercorporate dividends received by Finnish corporations. With respect to income or capital which under the treaty is exempt from Finnish tax, Finland retains the right to take the amount of exempt income or capital into account when determining the graduated rate of Finnish tax to be imposed on total taxable income and net wealth. This is the exemption with progression method of providing relief from double taxation. Examples of income and capital included in this category are industrial and commercial profits and capital attributable to a United States permanent establishment, income and capital attributable to ships and aircraft registered in the United States, and Government salaries and social security payments.

The operation of the Finnish combined exemption and credit method may be illustrated by the following example. A resident of Finland receives \$6,500 income from United States sources. This is his total income from all sources. The \$6,500 consists of \$5,000 salary, \$500 rental income, and \$1,000 dividends. He pays a total United States tax of \$350 of which \$200 is attributable to salary and rental income and \$150 is withheld on the dividends. In the absence of a treaty he would pay a total Finnish tax of \$550 of which \$465.30 $\left(\frac{\$5,500}{\$6,500} \times \$550\right)$ is attributable to salary and rental income. Under paragraph (2)(a) of this Article the Finnish resident is entitled to a credit for the full amount of the \$465.39 of Finnish tax attributable to the salary and rental income - which, in effect, exempts such income from Finnish tax. Under paragraph (2)(b) the

Finnish resident is also entitled to a deduction from his Finnish tax on the $1,000 dividend received from the United States in an amount equal to the United States tax paid on such dividends. However, under the limitation of the second sentence of paragraph (2)(b), the amount by which the United States tax attributable to such dividend ($150) exceeds the Finnish tax attributable to such dividend ($84.61) cannot be set off against Finnish tax attributable to the salary and rental income.

Article 6. SOURCE OF INCOME

The present Finnish Convention does not specify the rules for determining the source of the different kinds of income covered by the Treaty. This Article sets forth in a single provision all of the various rules which are to be applied to determine the source of the different kinds of income covered by the treaty: dividends, interest, royalties, income from real property, including gains derived from the sale of such property, and compensation for personal services. These rules affect the application of Article 4 (General Rules of Taxation) and Article 5 (Relief from Double Taxation).

The source of any kind of income not covered by the treaty shall be determined under the local law of the two States. In the case of different source rules applicable to an item of income the competent authorities of the two States under the mutual agreement procedure may establish a common source for the item of income.

The source rule under which dividends paid by a corporation of one State are treated as from sources within that State and dividends paid by any other corporation are treated as from sources outside that State conforms to both United States and Finnish statutory law. The source rule under which dividends paid by a corporation of any State are treated as from sources within one of the States if, during the previous 3 years, the corporation had a permanent establishment in that State and more than 80 percent of such corporation's income was attributable to such permanent establishment conforms to some extent to United States statutory law. Under section 861(a)(2)(B) of the Internal Revenue Code if more than 50 percent of a foreign corporation's income is effectively connected with a United States business, a pro rata share of such corporation's dividends are treated as from sources within the United States. The difference will result in the United States imposing tax in fewer cases under the Convention source rule than under the statutory source rule.

The source rule under which interest paid by a resident of one of the States, including a political subdivision of such State is treated as from sources within that State and interest paid by a resident or political subdivision of any other State is treated as from sources outside that State conforms to both United States and Finnish statutory law. The source rule under which interest paid by a resident, individual, or corporation, of any State is treated as from sources within one of the States if, during the previous 3 years, the resident has a permanent establish in that State and more than 80 percent of such corporation's income was attributable to such permanent establishment represents a combination and modification of the two source rules of section 861(a)(1)(B) and (C) of the Internal Revenue Code.

Royalties paid for the use, or right to use, property (as defined in Article 14 (Royalties)) in a State are treated as from sources within that State. Income from real property (including the sale of such property) located in a State is treated as from sources within that State. These source rules correspond to that found in section 861(a)(4) and (5) of the Internal Revenue Code.

Personal service income is treated as from sources within the State where the services are performed. This source rule corresponds to the general rule of section 861(a)(3) of the Internal Revenue Code.

Industrial and commercial profits attributable to a permanent establishment, and dividends, interest, royalties, real property income, and capital gains derived from rights or property effectively connected with a permanent establishment are treated as from sources within the State where such permanent establishment is located. In general the factors which under the proposed Convention determine whether the property giving rise to the investment-type income is effectively connected with a permanent establishment are the same as the factors which under section 864(c) of the Internal Revenue Code determine whether fixed or determinable annual or periodical income is effectively connected with the conduct of a trade or business in the United States.

Article 7. NONDISCRIMINATION

The existing Convention provides that citizens of one State will not be subjected to more burdensome taxes in the other State than are imposed on the citizens of such other State. The term "citizen" is defined to include all legal persons, partnerships, and associations created or organized under the laws of the respective States.

The proposed Convention substitutes a modernized nondiscrimination Article which bans discrimination by one State against the citizens of the other State or permanent establishments of residents or corporations of the other State. Thus, for example, a citizen of Finland who is a resident of the United States and who meets the requirements specified in section 911 of the Internal Revenue Code would, under this Article of the proposed Convention, be eligible for the benefits of section 911 although he is not also a citizen of the United States.

This Article provides, however, that a State may accord special treatment to its own residents on the basis of civil status or family responsibility.

The ban on discrimination extends to all taxes without regard to subject matter and whether imposed at national, State, or local level.

This Article is substantially similar to the nondiscrimination Article of the OECD Model Convention except that the model includes a provision concerning Stateless persons which has been omitted from the proposed Convention.

Article 8. BUSINESS PROFITS

This article sets forth the typical treaty rule that industrial or commercial profits of a resident of one State are taxable in the other State only if the resident has a permanent establishment in that other State. Where there is a permanent establishment only the profits attributable to the permanent establishment can be taxed by that other State. For purposes of Article 5 (Relief From Double Taxation) which, among other things, provides that a foreign tax credit will be allowed by the United States, such profits are considered to be from sources within the State in which the permanent establishment is located.

While under the existing Finnish Convention, as under the old French Convention, industrial or commercial profits are not taxed in the absence of a permanent establishment, once there is a permanent establishment the existing Convention, as did the old French Convention, provides that the provisions reducing the tax rates on interest and dividends and exempting royalties are not applicable. This rule is known as the "force of attraction" principle and is replaced in the proposed Convention, as in our new treaty with France, with the effectively connected concept. Under the new approach, only interest, dividends and royalties which are effectively connected with the permanent establishment are taxable as part of the industrial or commercial profits and do not benefit from the reduced rate or exemption.

In determining the proper attribution of industrial or commercial profits under the proposed treaty, the permanent establishment is generally to be treated as an independent entity and considered as realizing the profits which would be realized if the permanent establishment dealt with the resident of which it is a permanent establishment on an arm's-length basis. Expenses, wherever incurred, which are reasonably connected with profits attributable to the permanent establishment, including executive and general administrative expenses, will be allowed as deductions by the State in which the permanent establishment is located in computing the tax due to such State. However, it is not necessary to allow a profit to the head office for ancillary and management services furnished to the permanent establishment as long as the permanent establishment is allowed to deduct the costs incurred by the head office.

The mere purchase of goods or merchandise in a State by the permanent establishment, or by the resident of which it is a permanent establishment, for the account of such resident will not cause attribution of profits to such permanent establishment.

Paragraph (5) of this article defines the term "industrial or commercial profits of a resident" as including, *inter alia*, income derived from agricultural activity, the furnishing of personal services of others, the rental of tangible personal property, insurance activities and from rents or royalties derived from motion picture films, films or tapes of radio or television broadcasting.

The inclusion of rents and royalties from motion pictures and related activities represents a change from the existing Convention. The existing Convention allows Finland to tax Finnish source motion picture rents and royalties paid to United States distributors whether or not the distributors operate through a permanent establishment in Finland. The inclusion of motion picture royalties in industrial and commercial profits conforms to the rule in our new French treaty. Its effect is to provide on a reciprocal basis that motion picture royalties will be taxable by the source State only if they are attributable to a permanent establishment located in such State.

The definition of "industrial and commercial profits" specifically includes investment income if the right or property giving rise to the income is effectively connected with a permanent establishment. Income received by an individual as compensation for personal services either as an employee or in an independent capacity is not treated as industrial or commercial profits.

This Article is substantially similar to the business profits article of the OECD Model Convention except that the Model Convention does not contain a definition of industrial and commercial profits.

Article 9. PERMANENT ESTABLISHMENT

This Article defines the term "permanent establishment." The existence of a permanent establishment is, under the terms of the proposed Convention, a prerequisite for one State to tax the industrial or commercial profits of a resident of the other State. The concept is also significant in determining the applicability of other provisions of the Convention, such as Article 12 (Dividends), Article 13 (Interest), Article 14 (Royalties), and Article 16 (Capital Gains). The definition of "permanent establishment" is a modernized version of the definition found in some of our older treaties. The new definition is similar to the definition found in our French Convention.

The term "permanent establishment" means "a fixed place of business through which a resident of one of the Contracting States engages in industrial or commercial activity." Illustrations of the concept of a permanent establishment include a seat of management, a branch, an office, a factory, a workshop, a warehouse, a place of extraction of natural resources, or a building site or construction or installation project which exists for more than 12 months. The 12-month construction project rule is a physical test under which the resident must be actively engaged in the project during that 12-month period. As a general rule, any fixed facility through which an individual, corporation or other person conducts industrial or commercial activity will be treated as its permanent establishment unless it falls in one of the specific exceptions described below. The proposed Convention uses the term "a seat of management" which was the term used in our Convention with France. The technical explanation of our French Convention explains the definition of the term "a seat of management" and its differenc in meaning from the term "a place of management" as follows:

> It should be noted that this convention uses the term "seat of management" where the OECD model convention and prior agreements to which the United States is a party used the term "place of management"; both terms are translations of the French term "un siege de direction" and it is believed the translation found in this convention is the more accurate. Prior agreements in which the term "place of management" appears will be interpreted therefore as if the words "seat of management" had been used.

That explanation is applicable to the proposed Finnish Convention.

This Article specifically provides that a permanent establishment does not include a fixed place of business of a resident of one of the Contracting States which is located in the other Contracting State if it is used only for one or more of the following -- (1) the use of facilities for the purpose of storage, display, or delivery of goods or merchandise belonging to the resident; (2) the maintenance of a stock of goods or merchandise belonging to the resident for the purpose of storage, display, or delivery; (3) the maintenance of a stock of goods or merchandise belonging to the resident for the purpose of processing by another person; (4) the maintenance of a fixed place of business for the purpose of purchasing goods or merchandise, or for collecting information, for the resident; or (5) the maintenance of a fixed place of business for the purpose of advertising, or the supplying of information, for scientific research, or for similar activities which have a preparatory or auxiliary character, for the resident. These exceptions are cumulative and a site or facility used solely for more than one of these purposes will not be considered a permanent establishment under the proposed Convention.

Notwithstanding the other provisions of this Article, a person will be considered to have a permanent establishment if he engages in business through an agent, other than an independent agent, who has and regularly exercises authority to conclude contracts in the name of such person unless the agent exercises such authority only to purchase goods or merchandise. The existing Convention likewise provides that a purchasing agent is not a permanent establishment.

With respect to an independent agent, the proposed Convention also provides that a resident of one State will not be deemed to have a permanent establishment in the other State if such resident carries on business in such other State through an independent agent, such as a broker or general commission agent, if such agent is acting in the ordinary course of his business.

The determination of whether a resident of one State has a permanent establishment in the other State is to be made without regard to any control relationship of such resident with respect to a resident of the other State or with respect to a person who engages in industrial or commercial activity in that other State (whether through a permanent establishment or otherwise).

Article 10. SHIPPING AND AIR TRANSPORT

This Article provides that, notwithstanding the rules of Article 8 (Business Profits), a resident of one State will be exempt from tax in the other State on income derived from the operation in international traffic of ships or aircraft, including capital gain derived from the sale of a ship or aircraft, registered in the former State. This Article is substantially the same as Article V of the existing Convention.

This Article also will apply to income derived from the leasing, to a person engaged in the operation of ships or aircraft, of a ship or aircraft under a full or bareboat charter, where the lessor is engaged in the operation of ships or aircraft if such lease is ancillary to the lessor's other operations. For example, if an airline of one of the Contracting States which has excess equipment in the winter months leases several aircraft which are excess during that period to an airline in the other Contracting State, the lessor is not subject to tax by that other Contracting State.

The exemption provided by this Article is also applicable to profits derived from any activities incidental to the operation of ships or aircraft in international traffic. Thus, for example, commissions derived by a Finnish international air-carrier from the sale of passenger tickets in the United States as agent for other persons operating ships or aircraft, if incidental to its own international operations, will be exempt from United States tax under Article 8. Further, a Finnish airline company might have facilities at an international airport in the United States which are used to service and maintain its own aircraft. In order to make maximum use of the facilities, the company might also service and maintain aircraft of other companies. The profits derived from the furnishing of such services to others would be exempt under Article 8 unless such activity ceased to be only an incidental activity. However, income derived by a Finnish airline company from the operation of a hotel in the United States would not be incidental to the operation of aircraft and would not be exempt.

Article 11. RELATED PERSONS

This Article complements section 482 of the Internal Revenue Code of 1954 and confirms the power of each government to allocate items of income, deductions, credits, or allowances in cases in which a resident of one State is related to a resident of the other State if such related persons impose conditions between themselves which are different from conditions which would be imposed between independent persons. This provision is similar to the provision contained in the OECD Model Convention.

Provision is made in Article 28 (Mutual Agreement Procedure) for consultation and agreement between the two States where an allocation by either State results or would result in double taxation.

Article 12. DIVIDENDS

The existing Convention provides that dividends derived from sources within one State by a resident of the other State not having a permanent establishment in the former State will be subject to tax in the former State at a rate not in excess of 15 percent. In the case of intercorporate dividends, however, if the recipient owns 95 percent or more of the stock of the paying corporation and, generally, if not more than 25 percent of the gross income of the paying corporation consists of dividends and interest the maximum rate of tax is 5 percent. The proposed Convention continues the 15 percent rate with respect to dividends on portfolio investments and the 5 percent rate with respect to direct investments with the further requirement that in the case of Finnish source dividends, the combined dividend tax and capital tax on the capital stock of the paying corporation owned by the United States resident cannot exceed the specified maximum rates. The proposed Convention reduces the stock ownership requirement for direct investment dividends from 95 percent to 10 percent.

The proposed Convention abandons the "force of attraction" concept in the existing Convention by providing that the reduced rate of tax on dividends is denied only if the shares with respect to which the dividends are paid are effectively connected with a permanent establishment which the recipient has in the State of source. If so connected, the dividends are taxed as industrial or commercial profits under Article 8 (Business Profits).

The elimination of the "force of attraction" principle will make uniform the rate of tax levied on dividend income by a resident of one State from sources within the other State unless such income is effectively connected to a permanent establishment in the State of source. In those cases where the shares with respect to which the dividends are paid are effectively connected with a permanent establishment, the dividends may be taxed as industrial or commercial profits under Article 8 (Business Profits) The policy reflected in the abandonment of the "force of attraction" principle is also embodied in the recent revisions of the German, Dutch, and United Kingdom Conventions, our new Convention with France, and in the Foreign Investors Tax Act of 1966.

In the absence of a Convention, Finland would withhold at a rate of 15 percent of dividends paid by a Finnish corporation to a United States resident. The capital stock of a Finnish corporation owned by a United States resident would also be subject to the annual Finnish capital tax at graduated rates which range from .52 percent to 2.5 percent. In the absence of the Convention the United States would withhold at a rate of 30 percent on dividends paid by a United States corporation to a Finnish resident.

The dividend Article of the proposed Convention is patterned generally after the OECD Model Convention except as follows: With respect to qualification for the 5-percent intercorporate dividend rate, a 10-percent ownership requirement is substituted for the 25-percent ownership requirement of the OECD draft. The 10-percent rule conforms to the United States concept of direct investment especially as expressed in section 902 of the Internal Revenue Code. The proposed Convention also limits to 25 percent the amount of passive income which may be derived by a corporation paying dividends which qualify for the intercorporat dividend rate. This provision, which is included in most Conventions to which the United States is a party but which is not found in the OECD Draft, reflects the policy that the reduced rate should not be made available to dividends paid by certain holding companies. Dividends and interest received by the Finnish corporation paying dividends from 50 percent or more owned subsidiaries are not considered passive income.

Article 13. INTEREST

The existing Convention provides that interest derived from sources within one State by a resident of the other State not having a permanent establishment in the former State will be exempt from tax in the former State.

The proposed Convention retains this rule on interest replacing the "force of attraction principle" by the effectively connected approach.

Thus, the reduced rates of tax applicable to the interest apply unless tne recipient nas a permanent establishment in the State of source and the indebtedness giving rise to the interest is effectively connected with such permanent establishment. In such as case, the interest may be taxed as industrial or commercial profits.

Interest is defined generally as income from any kind of debt-claim or any income treated as interest under the tax law of the State of source. In cases in which excessive interest is paid by reason of a special relationship between the payor and the recipient, or between both of them and some other person, the provisions of the interest Article do not apply to the excess part of the payments. Excess interest payments may be taxed according to the law of each contracting State subject to the other provisions of the proposed Convention.

In the absence of a convention interest income derived from Finland by nonresidents is exempt from the national income tax and all local income taxes. This includes interest on bonds, bank accounts, and accounts originating from international trade. Likewise, such bonds and accounts are exempt from the capital tax if owned by nonresidents.

In the absence of a convention the United States would generally withhold tax at 30 percent from interest income derived by a nonresident from sources within the United States unless such nonresident was engaged in trade or business in the United States and such income was effectively connected to such trade or business; in the latter case, interest income would not be subject to withholding but would be subject to tax at ordinary rates.

Article 14. ROYALTIES

The existing Convention applies only to copyright royalties (not including motion picture royalties) and provides that they shall be exempt by the State of source provided the recipient does not have a permanent establishment in the source State. Patent and trademark royalties are not covered by the existing Convention. The proposed Convention Article, which is substantially the same as the OECD Model Convention, continues the rule of exemption at source. It also extends the definition of royalties to include (in addition to copyrights, artistic or scientific works) patents, designs or models, plans, secret processes or formulae, trademarks, and industrial, commercial, or scientific equipment, knowledge, experience, or skill (know-how); it also includes gains from the sale or exchange of the property described in the Article provided the payment is contingent on productivity, use, or disposition of the property. If the payments are so contingent, Article 16 (Capital Gains) applies. This all inclusive definition is based on the royalties Article in the new French Convention.

Under the proposed Convention, if excessive royalties are paid because the payor and recipient are related, the provisions of the royalties Article apply only to so much of the royalty as would have been paid to an unrelated person. Excess royalty payments may be taxed as dividends under Article 12 (Dividends).

In the absence of a convention, a nonresident of Finland receiving royalties, including film royalties, from Finland is deemed by Finland to be engaged in business in Finland and, consequently, is subject to income tax on net profit from the royalties at the regular corporate or individual rates. For the purposes of taxing film royalties, the net profit is presumed to be 7 percent of gross.

Under the proposed Convention film royalties are treated as industrial or commercial profits and exempt from tax in the State of source unless the recipient has a permanent establishment in that State to which the royalties are effectively connected.

Royalties are not subject to withholding tax at source in Finland. However, nonresident taxpayers receiving such income are preassessed on the basis of the last year's income (with adjustments in certain cases) at the current year's rate. In the absence of a convention, the United States would withhold tax at a rate of 30 percent from royalties paid to a nonresident unless such nonresident were engaged in business in the United States and such royalties were effectively connected to such business; in the latter case, such amounts would not be subject to withholding but would be subject to tax at ordinary rates in the United States

Article 15. INCOME FROM REAL PROPERTY

This Article which is similar to an article in the existing treaty provides that a resident of one State may be subject to tax in the other State on income from real property and royalties in respect of natural resources if the property or natural resource is located in such other State. This Article does not, as do the existing treaty and the 1967 treaty between the United States and France, provide for an election by the resident to compute his tax on such income on a net basis since under the internal laws of Finland and, since 1967, the United States this can be done. The income referred to in this Article includes gain from the sale or exchange of such property or such natural resource rights, but does not include interest on mortgages and similar instruments. The latter type of income is covered by Article 13 (Interest).

Article 16. CAPITAL GAINS

The existing Convention provides no special rules for gains derived in one State from the sale or exchange of stock, securities, commodities or other capital assets by a resident of the other State. The proposed Convention provides that such gains shall be exempt from tax by the State of source. However, the exemption does not apply if (1) the gain derived by a resident of one State arises out of the sale or exchange of property described in

Article 15 (Income from Real Property) which is situated within the other State; (2) the recipient of the gain has a permanent establishment or maintains a fixed base in that other State and the property giving rise to the gain is effectively connected with such permanent establishment or such fixed base, or (3) the recipient of the gain being an individual resident of the first State is present in that other State for a period or periods aggregating 183 days or more in the taxable year. Gains which are effectively connected with a permanent establishment may be taxed as industrial or commercial profits under Article 8 (Business Profits). Gains on real property are subject to the provisions of Article 15 (Income from Real Property) which permits taxation of such gains by the State in which the real property is situated.

Article 17. CAPITAL TAXES

The existing Convention does not contain an Article relative to capital taxes since they are not one of the taxes covered by the Convention. The proposed Convention provides, on a reciprocal basis, that a resident of one State shall be exempt from capital tax by the other State on all nonbusiness property (excluding real property) and on property pertaining to the operation of ships and aircraft.

Since the United States does not impose a separate capital (net wealth) tax, this Article represents a unilateral concession by Finland. In the absence of a convention individuals who are not residents of Finland are subject to the national net wealth tax with respect to their net wealth situated in Finland with the exception of bonds, bank accounts, and foreign trade credits. The rate is graduated from .52 percent to 2.5 percent. The national net wealth tax was repealed for all corporations effective January 1, 1968.

Article 18. INDEPENDENT PERSONAL SERVICES

The existing Convention does not distinguish between income from the performance of personal services in an independent capacity or a dependent capacity. It provides on a reciprocal basis that compensation for personal services shall be exempt from tax by the source State (where earned) if the resident is temporarily present in that State for not more than 183 days and if the resident either (1) is employed by a resident (including a corporation) of the other State or (2) does not earn more than $10,000.

The proposed Convention generally deals with personal services in two articles and creates a distinction based upon whether the services are independent or dependent personal services. Generally, income from independent activities may be taxed in the State in which such activities are exercised. Such income will be exempt from tax in the State of source if the recipient is present there for not more than 183 days during the taxable year.

Independent personal services means services performed by an individual for his own account independently where he receives the proceeds or bears the losses arising from such services. Thus, for example, a doctor or lawyer typically renders independent personal services. Also, an individual who under common law concepts is an independent contractor is considered as rendering independent personal services.

Article produces the same result as the independent activities Article of the OECD Model Convention except that a 183-day rule is substituted for the fixed base rule of the OECD Model as a qualification for exemption of personal service income in the State of source.

Article 19. DEPENDENT PERSONAL SERVICES

Generally, under the proposed Convention income from or personal services as an employee may be taxed in the State in which such labor or personal services are performed. However, such income will be exempt from tax in the State of source if (1) the recipient, being a resident of one of the Contracting States, is present in the State of source for a period or periods aggregating less than 183 days during the taxable year; (2) the recipient is an employee of a resident of the State of his residence (or a permanent establishment located in the State of his residence); and (3) the remuneration is not borne as such by a permanent establishment which the employer has in the State of source. The proposed Convention also adds a rule that income from personal services aboard ships or aircraft registered in one State and operated by a resident of that State will not be taxed in the other State so long as the services are rendered by a member of the regular complement of the ship or aircraft.

This Article of the proposed Convention is substantially similar to the OECD Model Convention except that, under the proposed Convention, an individual temporarily present in one State who is an employee of a permanent establishment located in the other State and maintained by a corporation of the first-mentioned State will be exempt from taxation by the first-mentioned State on wages earned while temporarily present therein if the other requirements are met.

Article 20. TEACHERS

The existing Convention covers teaching but not research and provides for a 2-year exemption for income received from teaching.

The proposed Convention continues and broadens the 2-year exemption period for visiting teachers. This exemption applies to an individual who is a resident of one State at the time he is invited by the other State or by an accredited educational institution of the other State to teach or do research in the other State and temporarily comes to such other State in order to engage in such teaching or research. Invitation may be by the Government or a university or other accredited educational institution of the other State and research or teaching may be done at such a university or recognized educational institution. However, the exemption does not apply to income from research undertaken not in the public interest but primarily for private benefit of a specific person or persons. If the individual's visit exceeds a period of 2 years from the date of arrival, the exemption applies to the income received by the individual before the expiration of such 2-year period. Under this provision an individual who has been a student or trainee and has been receiving the benefits of exemption under Article 21 (Students and Trainees) will not generally be entitled to the benefits of this Article if he subsequently becomes a teacher in the other State since one of the requirements of this Article is that the individual must be a resident of the first State at the time of his invitation to teach in the other State.

Article 21. STUDENTS AND TRAINEES

Under the existing Convention remittances received from within one State by students of such State residing in the other State for the purpose of study are exempt from tax by the latter State. The OECD Model Convention includes a similar provision.

The proposed Convention expands the exemption available to students by providing that an individual who is a resident of one State at the time he becomes temporarily present in the other State for the purpose of studying at a university or other accredited institution, of securing training for qualification in a profession or of studying or doing research as a recipient of a grant, allowance, or award from a governmental, religious, charitable, scientific, literary, or educational institution is exempt from tax in the host State on:

(1) Gifts from abroad for his maintenance and study;

(2) The grant, allowance, or award;

(3) Income from personal services performed in the host State not in excess of $2,000 (or its equivalent in Finnish markkas) for any taxable year.

These exemptions continue for such period of time as may be reasonably or customarily required to effectuate the purpose of his visit but in no event may an individual have the benefit of this Article and Article 20 (Teachers) for more than a total of 5 taxable years from the date of arrival.

In addition, a resident of one State employed by or under contract with a resident of that State who, at the time he is a resident of that State, becomes temporarily present in the other State for the purpose of studying or acquiring technical, professional, or business experience is exempt from tax in the host State on income not in excess of $5,000 (or its equivalent in Finnish Markkas) from personal services rendered in the host State. The individual is exempt for a period of 12 consecutive months which period commences with the first month in which he begins working or receives compensation.

Also, an individual who is a resident of one State at the time he becomes temporarily present in the other

State and who is temporarily present in the host State as a participant in a government program of the host State for the primary purpose of training, research, or study is entitled to an exemption by the host State with respect to his income from personal services relating to such training, research, or study performed in the host State in an amount not in excess of $10,000 United States dollars (or its equivalent in Finnish markkas). To be entitled to this exemption the program must be a program which does not exceed 1 year in duration. If this qualification is met then the income from personal services received with respect to such program is exempt.

If an individual qualifies for the benefits of more than one of the provisions of the personal services articles, he may choose the provision most favorable to him but he may not claim the benefits of more than one provision as a means of avoiding the limitations provided.

Article 22. GOVERNMANTAL FUNCTIONS

The existing Convention provides that compensation, including pensions, paid by one State or a political subdivision thereof to its citizens residing in the other

State (other than citizens of such other State) shall be exempt from tax by the State of residence. The proposed Convention continues the exemption but adds a specification that the compensation must be paid in connection with the discharge of functions of a governmental nature. Compensation paid in connection with industrial or commercial activity is treated the same as compensation received from a private employer. The provisions relating to dependent personal services, private pensions and annuities, and social security payments would apply in such a case.

Article 23. RULES APPLICABLE TO PERSONAL INCOME ARTICLES

This Article extends the benefits of the personal services income Articles (Articles 18 through 22) to reimbursed travel expenses. However, such reimbursed expenses will not be taken into account in computing the maximum amount of exemptions specified in Article 21 (Students and Trainees). If an individual qualifies for the benefits of more than one of the provisions of Article 18 through 22, he may choose the provision most favorable to him but the benefits claimed must be reduced by any benefits previously allowed with respect to the same income.

Paragraph (3) of this Article is a new provision not previously included in any convention signed by the United States. It was inserted at the request of Finland and is designed to relieve Finnish exchange students and teachers from Finnish tax on income earned while temporarily present in the United States. Although reciprocal in form, the provision is not reciprocal in substance since the United States, under the savings clause, retains the right to tax its citizens and residents as if the Convention were not in effect.

Under the new provision, an individual of one of the Contracting States temporarily present in the other Contracting State as a teacher, student, or trainee would be allowed as deductions by the former State, for purposes of computing his income tax therein, all travel expenses (including travel fares, meals and lodging, and expenses incident to travel) incurred while traveling between the two States and all ordinary and necessary living expenses (including meals and lodging) incurred while temporarily present in such other Contracting State. It is presumed, for purposes of this rule, that the deductible expenses of the individual amount to at least 30 percent of the income from personal services which he derives as a teacher, student, or trainee in the latter country and which is exempt from tax in that country under Article 20 (Teachers) or 21 (Students and Trainees). It is contemplated that the effect of this deduction will be such that the Finnish tax borne by Finns on the income which they derive while temporarily present in the United States as teachers, students, and trainees will be roughly the same as the United States tax which they would have incurred but for the treaty.

Article 24. PRIVATE PENSIONS AND ANNUITIES

The existing Convention provides that private pensions and annuities derived from sources within one State by an individual resident of the other State are exempt from tax by the source State.

The proposed Convention continues the existing rule by providing that pensions and other similar remuneration paid in consideration of past employment and annuities received by a resident of a State will be taxable only in the State of residence. However, pensions coming within the scope of Article 22 (Governmental Functions) will be taxable only by the State making payment.

The proposed Convention also provides that alimony paid to a resident of a State will be taxable only in the State of residence.

The term "annuities" is defined as a stated sum paid periodically at stated times during life, or during a specified number of years, under an obligation to make the payments in return for adequate and full consideration (other than services rendered). The term "pensions" is defined as periodic payments made after retirement in consideration for services rendered, or by way of compensation for injuries received in connection with, past employment.

The effect of this provision is generally the same as that of the OECD Model Convention.

Article 25. SOCIAL SECURITY PAYMENTS

This Article provides that social security payments paid by one State to an individual who is a resident of the other State will be taxed, if at all, by the payor State. Also included under this Article are other public pensions such as railroad retirement benefits. Neither the existing Convention nor the OECD Model Convention contains a comparable provision.

Article 26. DIPLOMATIC AND CONSULAR OFFICERS

This Article preserves the existing or subsequent ‗iscal privileges of diplomatic and consular officials under the general rules of international law or under the provisions of special agreements.

Article 27. INVESTMENT OR HOLDING COMPANIES

This Article denies the benefits of the dividends, interest, and royalties Articles to a corporation of one of the States deriving such income from sources within the other State if (1) such corporation is entitled to special tax benefits which result in the tax imposed on such income being substantially less than the tax generally imposed on corporate profits in such State, and (2) 25 percent or more of the capital of the corporation is owned directly or indirectly by one or more persons who are not individual residents of such State or, in the case of a Finnish corporation, are citizens of the United States.

The purpose of this Article is to deal with a potential abuse which could occur if one of the States provided preferential rates of tax for investment or holding companies. In such a case, residents of third countries could organize a corporation in the State extending the preferential rates for the purpose of making investments in the other State. The combination of the low tax rates in the first State and the reduced rates or exemptions in the other State would enable the third-country residents to realize unintended benefits.

Article 28. MUTUAL AGREEMENT PROCEDURE

This Article modernizes the mutual agreement procedures found in the existing Convention by adopting provisions similar to those in the recent amendments to our Conventions with the Netherlands, the United Kingdom, and the Federal Republic of Germany, and in our recently revised Convention with France. When a resident of one State considers that the action of one or both States has resulted, or will possibly result, in taxation contrary to the provisions of the proposed Convention, such resident may present his case to the competent authority of the State of which he is a resident.

This Article contemplates that the competent authorities of the two States will endeavor to settle by mutual agreement such cases of taxation not in accordance with the Convention as well as any other difficulties or doubts arising as to the application of the Convention. Some particular areas in which the competent authorities may consult and reach agreement are the amount of industrial and commercial profits to be attributed to a permanent establishment, the allocation of income, deductions, credits, or allowances, between a resident and a related person, and the determination of source of particular items.

In implementing the provisions of this Article, the competent authorities will communicate with each other directly and meet together for an exchange of oral opinions where advisable.

In cases in which the competent authorities reach agreement with respect to a particular matter, taxes will be adjusted and refunds or credits allowed in accordance with such agreement. This provision permits the issuance of a refund or credit notwithstanding procedural barriers otherwise existing under a State's law, such as the Statute of Limitations.

This provision will apply only where agreement or partial agreement has been reached between the competent authorities and will apply in the case of any such agreement after the Convention goes into effect even though the agreement may concern taxable years prior thereto.

Rev. Proc. 70-18 sets forth the procedure followed by the United States in implementing its obligations under this type of article.

Article 29. EXCHANGE OF INFORMATION

This Article provides for a system of administrative cooperation between the competent authorities of the two States and specifies conditions under which information may be exchanged to facilitate the administration of the Convention and to prevent fraud and the avoidance of taxes to which the Convention relates.

Information exchanged is treated as secret and may not be disclosed to any persons other than those (including a court or administrative body) concerned with the assessment, collection, enforcement, or prosecution of taxes subject to the Convention, but this does not prohibit incidental disclosure in the course of a court proceeding. In no case does this Article impose an obligation on either State to disclose trade secrets or similar information or to carry out administrative measures or supply particulars where such action would be at variance with the laws or administrative practice of that State, or contrary to public policy. In general, the standard for the exchange of information is the standard used by the States in the enforcement of their own laws by administrative and judicial authorities.

The mutual exchange of information called for by hese provisions is presently in effect in most of the conventions to which the United States is a party and is substantially similar to the provision contained in the existing Convention.

In addition, paragraphs (4) and (5) of this Article specifically provide that the competent authority of each State will advise the competent authority of the other State of any addition to or amendment of tax laws which concern the imposition of taxes which are the subject of the Convention . It is further provided that the competent authority of each State will exchange the texts of all published material interpreting the present Convention under the laws of the respective States, whether in the form of regulations, rulings, or judicial decisions.

In addition, it is provided that adjustment of some of the provisions of the Convention may be made without affecting its general principles by an exchange of notes or in any other manner in accordance with the constitutional procedure of the respective States. For example, if changes were made in the tax law of one of the States which did not affect the general principles of the Convention but which nonetheless required an appropriate adjustment of the provisions of the Convention, such adjustment could be accomplished by an exchange of notes.

Article 30. ASSISTANCE IN COLLECTION

This Article, substantially similar to the assistance in collection Article in the existing Convention, provides for mutual assistance in the collection of taxes where required to avoid an abuse of the Convention. The provision is intended merely to insure that the benefits of the Convention will only be available with respect to persons entitled to such benefits; it does not in any way alter rights under other provisions of the Convention.

The Article provides that each State will endeavor to collect for the other State such amounts as may be necessary to insure that any exemption or reduced rate of tax granted under the proposed Convention will not be availed of by persons not entitled to those benefits. However, this Article will not require a State, in order to collect taxes which are imposed by the other State, to undertake any administrative measures that differ from its internal regulations or practices nor will this Article require a State to undertake any administrative or judicial measures which are contrary to that State's sovereignty, security, or public policy.

Article 31. ENTRY INTO FORCE

This Article provides for the ratification of the proposed Convention and for the exchange of instruments of ratification. The Convention will enter into force two months after the date of exchange of such instruments. However, the provisions of the proposed Convention shall be effective:

In the case of Finland to taxes which are levied for the taxable year beginning on or after January 1, following the year in which the instruments of ratification are exchanged;

In the case of the United States:

(1) as respects the rate of withholding tax, to amounts received on or after the date on which the Convention enters into force; and

(2) as respects other income taxes, to taxable years beginning on or after January 1, following the year in which the instruments of ratification are exchanged.

The entry into force of the proposed Convention will terminate the Convention of December 18, 1952.

Article 32. TERMINATION

The Convention will continue in effect indefinitely, but may be terminated by either State at any time after the year 1973. A State seeking to terminate the Convention must give notice at least 6 months before the end of the calendar year through diplomatic channels.

If the Convention is terminated, such termination will be effective:

In the case of Finland to taxes which are levied for taxable years beginning on or after January 1 of the year in which notice is given;

In the case of the United States:

(1) as respects withholding taxes, on January 1 of the year following the year in which notice is given;

(2) as respects other income taxes, for any taxable year beginning on or after January 1 of the year following the year in which notice is given.

However, upon prior notice to be given through diplomatic channels, the provisions of Article 25 (Social Security Payments) may be terminated by either State at any time after this Convention enters into force.

Department of the TREASURY NEWS

IINGTON, D.C. 20220 TELEPHONE WO4-2041

FOR IMMEDIATE RELEASE October 6, 1970

STATE-FEDERAL FINANCIAL MANAGEMENT CONFERENCE

Secretary Kennedy, Director Shultz, Chairman Hampton and Comptroller General Staats announced today that officials of their respective agencies are convening this week, on October 8-9, with financial executives of the State governments at the Washington Hilton. The meeting is designed to provide for discussions of mutual problems relative to State-Federal relationships, particularly as they relate to the financial management of grant-in-aid programs and to the financial tools needed to improve the management of such programs.

Talks to be given by Brevard Crihfield, Executive Director of the Council of State Governments, Elmer Staats, Comptroller General of the United States, William Snodgrass, Comptroller of the Treasury of Tennessee, Dwight Ink, Assistant Director of the Office of Management and Budget, Wayne McGown, Secretary of Administration for Wisconsin, and Robert Joss, Assistant to the Assistant Secretary of the Treasury for Economic Affairs, will highlight the two-day program. Their addresses will be pointed toward methods whereby the States and the Federal government can better work together to improve State-Federal relationships in the financial management of grant-in-aid programs. In addition, there will be workshops on technical subjects in the fields of auditing, budgeting, accounting and financing.

This will hopefully be the first of a series of conferences being developed by a committee of members of the Council of State Governments; the National Association of State Auditors, Comptrollers, and Treasurers; the National Association of State Budget Officers; the Fiscal Review and Post-Audit Workshops of the National Legislative Conference; and the Federal Joint Financial Management Improvement Program under the leadership of the Comptroller General of the United States, the Director of the Office of Management and Budget, the Chairman of the Civil Service Commission, and the Secretary of the Treasury.

Attending the conference from State governments are State treasurers, budget officers, comptrollers, auditors, legislative fiscal review personnel, and governors' financial assistants. Attending the conference from the Federal government are officials of the sponsoring agencies--the General Accounting Office, Office of Management and Budget, Civil Service Commission and Treasury Department--and officials of the Federal agencies with large grant-in-aid programs.

oOo

Department of the TREASURY NEWS

INGTON, 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 ANNUAL MEETING OF THE BOARD OF DIRECTORS
OF THE FEDERAL RESERVE BANK OF ST. LOUIS
LITTLE ROCK, ARKANSAS
THURSDAY, OCTOBER 8, 1970, 12:00 NOON, CDT

FISCAL POLICY FOR A PERIOD OF TRANSITION

It is a great personal pleasure for me to address this combined meeting of the Board of Directors of the Federal Reserve Bank of St. Louis and of its Little Rock branch. As a St. Louisian, I am keenly aware of the important contribution that this institution is making to our region.

As an economist, I am perhaps even more aware of the very useful role of the Eighth Federal Reserve District in emphasizing the importance of monetary factors in our national economy. I come here to pay tribute to the pioneering work of the Bank and its economists even though my own approach to economic policy may differ in some substantial respects.

I thought that it might be useful today if I provided some thoughts on that area of economic policy in which I have particular involvement, and that is fiscal policy. Before turning to the outlook for the economy and the budget, I would like to offer some personal observations on the role of fiscal policy.

Only a few years ago, it seemed that fiscal policy was all that mattered. Monetary considerations were largely ignored. In good measure because of the work of economists specializing in monetary policy, I believe that shortcoming has been corrected. As modern economists in general now realize, money, of course, does matter. However, as with many things in life, there is always the danger that the correction will be carried too far.

I sense a parallel here with the dentist who sees me as two rows of teeth surrounded by a lot of miscellaneous matter. Similarly, exclusive focus on a single economic variable, no matter how important, is bound to ignore significant characteristics of our complicated economic structure. The fiscal position of the Government, of course, is also important in economic policy, and from at least two standpoints. On the one hand, government spending and taxing have a direct impact on the levels of income and output in the economy and, hence, on the allocation of resources. On the other hand, there is the fiscal effect on credit markets as the Government competes for investment funds to finance its deficits and related government-sponsored operations.

Impacts of Fiscal Policy

I thought that it might be helpful if I turn directly to some of the more recent, and controversial, instances of the use of fiscal policy. Events following the tax cut of 1964 seemed to verify the predictability of fiscal policy in promoting, as forecasted, a substantial expansion in the Nation's output and employment. The belated tax increase of 1968 did not quite live up to that earlier standard of predictability in terms of producing the forecasted behavior in total spending.

The reasons are complex and deserve careful study. It does seem to me that disillusionment with fiscal policy, while understandable, is decidedly premature. My own analysis of the experience with the imposition of the income tax surcharge in 1968 convinces me that changes in taxation do have a visible impact on the allocation of personal income among consumption, taxation, and saving. The available data do show that increases in income taxes, temporary or permanent, do have the desired effects; they do tend -- as would be expected -- to depress both personal consumption expenditures and personal saving.

However, the precise proportions of these impacts, as we have seen, may vary according to the changing influence of many factors, including consumer expectations concerning the future. Hence, the repercussions may be more modest than had been expected, at least by some analysts, but the results seem to me to be quite clear. A complicating consideration in analyzing the repercussions may be the swamping of effects from tax changes because other factors were operating. This does not mean that the tax changes, per se, were not effective; they may merely be hidden under the surface of more dramatic events.

For example, consumer spending averaged 78.2 percent of personal income in the 18 months before the Federal income tax surcharge was enacted in July 1968, and 77.3 percent in the 18 months after that tax increase became effective. If we make what often is the heroic assumption that all other factors were held constant, it would appear that the 10 percent surcharge caused the proportion of personal income which was devoted to consumption to decline by nine-tenths of one percentage point. Similarly, the proportion of income saved dropped by 1.3 percentage points.

A somewhat more sophisticated analysis would make some allowance for the lags that may occur between the time that personal income is changed and a shift in consumer spending patterns is evident. For example, the authoritative study at the University of Michigan by George Katona and Eva Mueller of the 1964 tax legislation revealed a lag between tax action and personal spending of perhaps 6 months or more. For purposes of illustration, let us assume a more modest three-month lag for the temporary 10 percent increase in Federal income tax rates enacted in 1968.

Hence, let us analyze the relationship between consumer spending and saving in a given quarter of a year and the income received in the preceding quarter. On that basis (see Table 1), the imposition of the income tax surcharge was followed by a drop of 1.2 percentage points in the proportion of personal income devoted to personal consumption expenditures and a decline of one percentage point in the savings ratio for the time periods under study. In an economy the size of our own, a one percentage point shift is quite striking when we translate it into billions of dollars.

I suggest that, in retrospect, the direct economic impact of the surcharge was as we should have expected: the major share of the higher taxes came out of funds that consumers otherwise would have devoted to personal consumption expenditures, and the remainder came out of income that would otherwise have been saved and invested. To me, this experience vindicates rather than discredits the usefulness of fiscal policy for purposes of economic stabilization.

Our experience to date with the phase-out of the surcharge tends to confirm the pattern of adjustment. Both consumer spending and consumer saving have risen as a proportion of personal income, and, here again, a lagged reaction may be developing. The impact on saving seems to have been greater in the immediate period than it is likely to be in

Table 1

EFFECT OF THE SURCHARGE ON CONSUMER SPENDING AND SAVING

	Percentage Distribution of Personal Income			
Period	Personal Consumption Expenditures	Personal Saving	Personal Taxes, etc.	Total
18 Months Before the Tax Surcharge				
Average of quarterly data for January 1967 - June 1968	79.8	6.3	13.9	100.0
18 Months After Imposition of Tax Surcharge				
Average of quarterly data for July 1968 - December 1969	78.6	5.3	16.1	100.0

NOTE: Consumption and saving are lagged one quarter (see text).

subsequent months when consumers have had time to adjust their consumption patterns to their higher disposable income. Hence, we can expect the savings ratio to recede somewhat from its current peak. Certainly, the phase-out of the surcharge has contributed to the higher level of economic activity and, together with appropriate monetary policy, has enabled us to make the current economic adjustment to a less inflationary economy without the customary recession.

Hence, the current wave of skepticism concerning the effectiveness of fiscal policy seems quite ill-advised, and I do sense its ebbing. Although fiscal measures have helped to slow down the economy, what neither fiscal nor monetary restraint has done was to arrest quickly a strong inflationary momentum. This should provide a sobering experience for advocates in either camp.

To this observer, one clear lesson of the last few years is the importance of the Federal fiscal position to money and capital markets. Federal deficits at high employment spell trouble in terms of overstrained financial markets and upward pressures on interest rates.

To be sure, a distinction between "passive deficits" (resulting from economic slowup) and "active deficits" (to stimulate economic growth) still can be made. As economic slowup develops, Federal receipts fall, and, indeed, this was a factor in the more-than-projected deficit of the past fiscal year. This has meant more Federal financing and more pressure in financial markets, already feeling the effects of continuing heavy private requirements for liquidity. Interest rates, of course, nevertheless have subsided somewhat -- but not yet in as substantial a degree as has characterized many other cyclical slowups. The small decline of yields in both short- and long-term markets has been one manifestation of this.

And, as long as the economic adjustment now underway remains small, as it has, the pressure in financial markets will place limits to the decline in yields. The risk is now turning in the other direction -- to higher yields, should the recovery now apparently in progress move up too fast. Unfortunately, this could channel the flow of funds to sectors other than those with high national priority -- allocation of credit to housing, state and local governments, small businessmen, etc.

Hence, appropriate fiscal policy in an economy of high employment must play a strategic role; the links between fiscal and monetary policies are complex and unbreakable.

Some fiscal skeptics fail to see how a few billion dollars -- of government money -- can matter one way or another. What some of the critics forget is that the extra Federal borrowing, while small relative to total output, impinges on credit markets whose short-run capacity is limited. This can be disruptive in terms of the functioning of markets, the allocation of credit among different classes of borrowers (e.g., for home mortgages), and the level of interest rates.

We do need to recognize the practical limitations under which fiscal policy operates. There are serious barriers to very frequent changes for short-run stabilization purposes. Political restraints may at times result in an inappropriate fiscal policy. Certainly, the $25 billion budget deficit in the fiscal year 1968 was a mark of wrong, but not of ineffectual, fiscal policy. In retrospect, we would have hoped that fiscal effects then were weaker than they actually were.

To sum up, there are many sides to the economic elephant, around which economists are stumbling and of which we are taking various measurements. Money matters, as do fiscal actions. The state of our economic knowledge does not justify a doctrinaire dismissal of either stabilization policy approach. We have too few effective economic policy tools to be in a position to abandon any.

Indeed, as we examine economic policy in recent periods, we do indeed find that we have continued to utilize fiscal tools. For example, at the President's request, the Congress passed several revenue-raising measures last year which were designed to assist in dampening down a then overheated economy.

The items that I have in mind include extending the 10 percent income tax surcharge from June 30, 1969 to December 31, 1969, and, at a five percent rate, to June 30, 1970. Also, scheduled reductions in selected excises were postponed one year (and the Administration has asked that these tax reductions be postponed again).

It is clear to me that fiscal measures continue to play an important, but not solitary, role in the execution of national economic policy.

Federal-State-Local Relations

I would like to turn briefly to an aspect of fiscal and economic policy that often is overlooked in discussions of national trends -- the interrelationships between the Federal Government and state and local governments. The Federal Government, as we know, possesses rather potent monetary and fiscal tools which it can use to help promote economic stabilization and growth.

In contrast, state and local governments, far more limited in their fiscal capabilities, are more in the position of reacting to aggregate economic trends. Many local governments, for example, find themselves in a budgetary bind when so much of their income comes from sources not responsive to economic growth, such as the property tax.

Mindful of the financial problems facing state and local governments, the Nixon Administration has advanced an innovative program for sharing a portion of Federal revenues with states, counties, and cities. Under the revenue-sharing proposal, a percentage of the Federal personal income tax base -- the fairly steadily rising total of individual taxable incomes reported to the Internal Revenue Service -- will be disbursed each quarter to every state, county, and city in the Nation.

Although revenue sharing will not be a panacea, it should help to strengthen the capability of state and local governments to respond to the needs of their citizens.

The Outlook

My own reading of the economic tea leaves leads me to believe that the economy is in the process of turning up while inflationary pressures are being reduced. However, it is important during this period of transition to keep the inevitable month-to-month fluctuations in their proper perspective.

For the period immediately ahead, each month's statistics are not likely to steadily reflect an upturn in the level of economic activity nor a downward trend in the rate of inflation. In fact, a short pause or even a temporary turn for a month or so in some of these statistical series is quite likely and, in some cases, has been occurring. We need to avoid confusing these volatile and temporary fluctuations with changes in the underlying trend.

It is when we examine these underlying trends that we find the basis for the expectations of advancement in the level of economic activity and a continued reduction in the rate of price increases. Perhaps the major and very real change that we have been witnessing is in the general atmosphere of improved expectations.

Despite the current strike in the automobile industry, I anticipate that real GNP will rise in the third quarter of 1970. The results for the fourth quarter will depend in good measure on the extent to which the strike will continue. In any event, I would expect the current work stoppage merely to slow down or interrupt the recovery which is already under way.

My own evaluation of the economic outlook leads me to conclude that the upturn will be moderate enough to be accompanied by continued measurable progress in bringing down the rate of inflation. The performance of both consumer prices and wholesale prices in recent months is quite reassuring on that score: ignoring inevitable month-to-month fluctuations, the trend in 1970 to date shows a dampening in the rate of inflation. My forecast for the coming year is along the same lines: ignoring inevitable month-to-month fluctuations, the outlook is for a further dampening in the rate of inflation. The specific degree of improvement in the price level, of course, will depend in part on the results of decisions in the private sector on wages and other elements of costs and prices.

Given this background of economic developments, the budget situation is a source of considerable attention. It is too early for any definitive statement on the prospects for the fiscal year 1971. There are still actions which can, and should, be taken on both the revenue and expenditure sides which would hold down the likely deficit to reasonable proportions.

The budget rule announced by the President on recent occasions certainly provides a good and clear guide: to keep expenditures within the limits of the revenues that our Federal tax structure provides at full employment. By following this guideline, we will restore budgetary balance when the economy is operating at full potential.

Keeping expenditures within full employment revenues will not be easy to do, especially if new initiatives are to be pursued, let alone the general updrift in costs of existing programs. It is likely to require hard decisions on the expenditure side -- perhaps some program deferrals, reductions and phase-outs.

In the area of military spending, the leading indicators all portend a continued slowdown in dollar terms and a further decline in real terms in coming months. In the longer run, the trend of defense expenditures will depend on the course of international developments and this Nation's reaction to them.

In the area of civilian government outlays, I am struck by the cogency of the recent warning of Caspar Weinberger, the Deputy Director of the Office of Management and Budget: "A pilot project normally turns into an essential program in three years . . . The distance from an urgent priority to an untouchable sacred cow is usually no more than five fiscal years."

A fiscal policy adequate and proper for the transition to a period of renewed growth but lessened inflationary pressures calls for a tighter control over Federal spending. To keep expenditures within the revenues that can be expected when the economy returns to full employment will require hard choices among alternative spending programs.

There is much talk these days about the need to change our priorities. But, there are two parts to the process. The attractive and much easier part of increasing spending for high priority items has, as we would expect, received the great bulk of the attention. We now need to focus on the second and harder step which is necessary in order to achieve the required shift of resources: identifying those programs of lower priority which can be reduced, postponed, or even eliminated and then taking action to do so. Not until this second step is accomplished will the necessary changes in priorities truly be effected.

oOo

Department of the TREASURY NEWS

HINGTON, D.C. 20220 TELEPHONE WO4-2041

ADVANCE FOR RELEASE AT 2:30 P.M. (CDT) - 1:30 P.M. (EDT)
THURSDAY, OCTOBER 8, 1970

FORMER HOUSTON LAWYER APPOINTED TO HIGH TREASURY POST

Secretary of the Treausry David M. Kennedy today named John E. Chapoton of Texas as Acting Tax Legislative Counsel, a major post in the formulation of U.S. tax policy.

Mr. Chapoton, 34, a former Houston, Texas, lawyer has been Deputy Tax Legislative Counsel. He played a major role in shaping the 1969 Tax Reform Act.

He succeeds Meade Whitaker, who resigned to return to the practice of law in Birmingham, Alabama. Mr. Whitaker will rejoin the firm of Cabaniss, Johnston, Gardner and Clark, of which he was a partner at the time of his appointment as Tax Legislative Counsel by Secretary Kennedy in July 1969.

Mr. Chapoton will direct a staff of lawyers and accountants who compose one of the two major units under Assistant Treasury Secretary for Tax Policy Edwin S. Cohen. The other unit is the Office of Tax Analysis, a staff of economists.

Mr. Chapoton joined the staff of the Tax Legislative Counsel in May 1969 after eight years as a lawyer in the Houston firm of Andrews, Kurth, Campbell and Jones.

In August 1969, he was appointed Associate Tax Legislative Counsel, and in July 1970 he was promoted to Deputy Tax Legislative Counsel.

A native of Galveston, Texas, Mr. Chapoton attended Washington and Lee University, Lexington, Virginia, and graduated with honors from the University of Texas, as a Bachelor of Business Administration, in 1958. He also graduated with honors in 1960 from the University of Texas Law School, where he was an editor of the Texas Law Review and a member of the Order of the Coif, a legal honor fraternity.

(OVER)

Earning a commission in the R.O.T.C., Mr. Chapoton served in the Army, 1960-61.

Mr. Chapoton is married to the former Sarah Eastham of Houston. They have two children and make their home in Washington. The appointment was effective October 1.

oOo

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

MEMORANDUM FOR THE PRESS: October 8, 1970

REGULATIONS BENEFITING OIL-WELL-SERVICING BUSINESSES

The Treasury Department has published tentative regulations which will help oil-well-servicing and other businesses that use motor vehicles equipped with certain specialized machinery.

A tax is now imposed on the fuel used in motor vehicles designed to carry loads from one place to another, and in many instances the tax has been applied even when fuel is consumed to operate specialized equipment. This has been particularly true of oil-well-servicing equipment.

Treasury has now acted to assure that the fuel used during those times when the motor vehicle is substantially immobilized and operating special equipment will be tax-exempt. Specifically, it has said that a motor vehicle will not be classified as a "motor vehicle" at those times, and, therefore, the fuel consumed during use of the special equipment will not be taxed.

Text of the proposed regulation is attached.

Attachment

Proposed Rule Making

DEPARTMENT OF THE TREASURY

Internal Revenue Service

[26 CFR Part 48]

MANUFACTURERS AND RETAILERS EXCISE TAXES

Taxability of Special Fuels

Notice is hereby given that the regulations set forth in tentative form below are proposed to be prescribed by the Commissioner of Internal Revenue, with the appro'al 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 7805 of the Internal Revenue Code of 1954 (68A Stat. 917; 26 U.S.C. 7805).

[SEAL] RANDOLPH W. THROWER,
Commissioner of Internal Revenue.

Section 48.4041–7(c)(2) (relating to temporary loss of classification as a motor vehicle) of the Manufacturers and Retailers Excise Tax Regulations (26 CFR Part 48) is hereby amended to read as follows:

§ 18.1041–7 Definitions.

* * * * *

(c) *Motor vehicles.* * * *

(2) *Temporary loss of classification as a motor vehicle.* (i) A vehicle on which equipment or machinery having a specialized use (as for example specialized oilfield machinery) is mounted and which (except for the provisions of this subparagraph) would be considered a motor vehicle under subparagraph (1) of this paragraph shall not be considered a motor vehicle during a period in which it does not have the essential characteristics of a motor vehicle. Such vehicle will be considered as not having the essential characteristics of a motor vehicle during the period the vehicle is incapable of motion and the equipment or machinery is performing the operation for which it is primarily adapted if—

(*a*) The primary use of such equipment or machinery is other than in connection with the loading, unloading, handling, processing, preserving, or otherwise caring for any cargo transported or processed on the vehicle, and

(*b*) The vehicle assumes the essential characteristics of an immobile piece of equipment or machinery designed for a specialized use.

After the mobility of the vehicle is restored, the vehicle shall again be considered a motor vehicle within the meaning of subparagraph (1) of this paragraph. For purposes of this subparagraph, the mere fact that a vehicle, in order for the equipment or machinery to perform the operation for which it is primarily adapted, is rendered immobile by placing wedges or chock blocks against the tires or by the switching or pulling of a lever such as a handbrake or power takeoff is not sufficient to satisfy the requirement that the vehicle be incapable of motion.

(ii) The provisions of subdivision (i) of this subparagraph may be illustrated by the following examples:

Example (1). The X Company which is engaged in the oil-well-servicing business uses a motor vehicle which is primarily adapted to oil well servicing. X Company moves a motor vehicle on which is mounted servicing equipment to a wellhead which is to be serviced. At the wellhead, the vehicle is immobilized by the erection of a mast stabilized by the use of jacks, either hydraulic or mechanical. This immobilization process is essential in order that the mast be secure and level over the wellhead and, when completed, the vehicle is incapable of movement. The power used for operating the special equipment needed to service the oil well is obtained by means of a power transfer from the same motor which is used to propel the vehicle. Since the requirements of subdivision (*i*) of this subparagraph are satisfied, during the time the vehicle is immobilized it is not considered a motor vehicle for purposes of subparagraph (1) of this paragraph.

Example (2). The Y Company is engaged in the business of trimming tree limbs away from telephone and electric transmission lines. Y Company uses a motor vehicle on which is mounted aerial lift equipment in order to trim these trees. Before trimming these trees, the vehicle is made incapable of motion by use of hydraulic or mechanical jacks which prevent movement of the truck during the trimming process. The power used for operating the aerial lift equipment is obtained by means of a power transfer from the same motor which is used to propel the vehicle. Since the requirements of subdivision (i) of this subparagraph are satisfied, during the time the vehicle is immobilized it is not considered a motor vehicle for purposes of subparagraph (1) of this paragraph.

Example (3). Z Company which is engaged in the concrete-mixing business uses a motor vehicle on which is mounted a concrete mixer. The vehicle is used for transporting concrete, mixing concrete while in transit, or mixing concrete at the jobsite. The power used for operating the concrete mixer is obtained by means of a power transfer from the same motor which is used to propel the vehicle. Because this vehicle is transporting or processing its cargo, it can not meet the requirements of subdivision (*a*) of subparagraph (2)(i) and does not temporarily lose its classification as a motor vehicle.

* * * * *

[F.R. Doc. 70–12766; Filed, Sept. 23, 1970; 8:51 a.m.]

Department of the TREASURY

HINGTON, D.C. 20220 TELEPHONE WO4-2041

NEWS

ADVANCE FOR RELEASE AT 11:45 A.M. (EDT), FRIDAY, OCT. 9, 1970

MOVE TOWARD "COMPOSITE CHECKS" FOR GOVERNMENT EMPLOYEES; AID TO ANTI-FORGERY FIGHT

Secretary of the Treasury David M. Kennedy announced today a government-wide campaign to use "composite checks" where a number of government workers voluntarily have their paychecks all sent to a single bank or other financial institution. The plan is designed to help the government's effort to fight check forgeries, save the U.S. money, and provide added convenience to government workers.

"It is too early to regard this as a step toward a checkless society; rather it is a move toward fewer checks," Mr. Kennedy said.

At present, 10.3 per cent of the government's 2,700,000 civilian employees have their paychecks sent directly to a bank. About one check in every 10,000 is stolen and forged. Other checks are stolen or lost and never cashed. Under the "composite check" system a single check will be made out where several employees bank at a single institution and voluntarily ask to have their checks mailed directly to the bank.

This check will be forgery-proof, in that it will be made out to a financial institution rather than to an individual. The bank or other financial institution will also get a payroll record from the employee's agency in a separate mailing from the actual composite check. This will permit crediting to every account involved even though the check itself might go astray.

The government will save approximately 8 cents each on every check that is eliminated. As of today this could mean elimination of 900,000 checks annually. The plan is expected to save the government $72,000 this year with increasing sums thereafter.

Mr. Kennedy emphasized that the plan involves voluntary action on the part of government employees. "There is no intent here to force any worker to have his check sent to a bank; rather it is a recognition of the savings possible because of the increasing numbers of employees who find this system of check depositing convenient," he said.

oOo

Attachments

ROUND INFORMATION FOR THE PRESS

355

New Regulations for Paying Government Personnel by Direct Credit to Accounts in Financial Organizations

The Treasury Department today called attention to regulations issued to all Federal agencies establishing new requirements in paying personnel who elect to receive their net pay regularly by direct credit to their accounts in designated banks and other financial organizations. Commissioner of Accounts, Sidney S. Sokol, said that the Treasury Fiscal Requirements Manual, in a release dated September 28, 1970, now makes it mandatory that if at least five individuals in the same payroll designate the same financial organization a single (composite) check shall be issued in favor of the financial organization covering all the personnel involved. The account of each participating person is credited on the basis of a separate list. Under certain standards the use of this procedure may be approved for even fewer than five participants. Agencies are required to convert their payrolling systems as promptly as possible to achieve these results, but not later than June 30, 1971.

The option of receiving full net pay regularly in the form of a check drawn in favor of a financial organization has been available to Government personnel for several years. It has been carried out largely by means of an individual check so issued for each person. The composite check technique, now mandatory, has heretofore been used in a number of agencies, but not universally. Whether the check covers only one person or is a composite payment for a group of persons, the fact that it is drawn in favor of a bank or other financial organization makes it "forgery-proof" in the event of loss or theft.

In addition to the basic safety feature, for personnel and the Government, the composite check system offers other significant advantages. Operating costs are reduced when one check can be prepared and mailed to pay five, ten, a hundred or several hundred persons. Equally significant for all concerned are certain special arrangements which will be made gradually with all financial organizations designated by the participants. The payment list, which will be mailed prior to the composite check, will be the basis for crediting each person's account on the established payday even if the composite check is not received in the mail on that payday. The financial organization is guaranteed timely credit by the Government and is thus able to guarantee credit on payday, without fail, for each of its participating customers.

To the extent that personnel voluntarily elect to be paid by direct credit in a financial organization, delays in payment, lost or stolen pay checks, substitute checks, forged pay checks, and all related problems, many of an emergency nature potentially involving large quantities of individual checks in bulk shipments -- all can become a thing of the past. From a longer range standpoint there are significant potentialities for possible application to other classes of Government payments.

(OVER)

There is still a long way to go for the immediate objectives applicable to payments to the Government's own in-house personnel. The percentage of voluntary participation, which is still relatively low, can be much greater. To this end, the new regulations require all agencies to inform all personnel about the facts and mutual advantages. The approach remains purely voluntary, but with a positive effort to see to it that all who fail to take advantage of the option are in that category by choice, not through neglect or lack of information.

Data on participation will be developed in a census to be taken through Government disbursing offices for the last pay period in December.

Bureau of Accounts
Office of the Commissioner
October 6, 1970

FFICE OF THE COMMISSIONER

THE DEPARTMENT OF THE TREASURY
FISCAL SERVICE
BUREAU OF ACCOUNTS
WASHINGTON, D.C. 20226

September 28, 1970

TREASURY FISCAL REQUIREMENTS MANUAL FOR
GUIDANCE OF DEPARTMENTS AND AGENCIES

TRANSMITTAL LETTER NO. 53

TO HEADS OF GOVERNMENT DEPARTMENTS AND AGENCIES AND OTHERS CONCERNED:

PREFACE

Five years have elapsed since the law gave Government personnel the option of receiving their full net pay regularly by direct credit to accounts in banks or other financial organizations, by means of checks drawn in favor of the financial organizations. The extent of voluntary participation has been relatively minor; it can be much greater, voluntarily.

Two years have elapsed since the procedure itself, originally optional for Government agencies, was made mandatory--so that all checks mailed to the designated financial organizations would be drawn in favor of such organizations. In all but a few places, this is now the uniform practice.

Consequently, conditions now warrant establishment of specific criteria for mandatory conversion to the "composite check" procedure. Some agencies have already acted in this direction; others are in process. Many others will need to assign priority for conversion of those steps in their payrolling systems that are needed to produce net pay outputs in composite groupings of personnel with common financial organization payees. Cost reduction for the Government continues to be an objective; but the procedure now to be used also adds a new dimension, to give all participating personnel assurance that their accounts will be credited on pay day, without fail, regardless of what might happen to the composite check. This alone should motivate greater voluntary participation.

Pose the proposition that by 1980 virtually all, if not all, Government payments [now over 600 million annually] are being made in the manner covered by these procedures. And ask yourself what value this will have in terms of (1) better quality of service to the tens of millions of recipients; (2) economy of operations everywhere; and (3) above all, complete disappearance of that portion of 'criminal industry' which feeds on theft and forgery of Government checks, with its tremendous effect on dollar values for the public and private sectors and on values that transcend the dollar sign.

The immediate challenge, confined as it is to payments to the Government's own on-board personnel, is but a small part of the total goal--relatively minor

Your Future With U.S. Savings Bonds

because it covers at best less than 20 percent of all Government payments and relatively simple, conceptually and operationally, compared to the massive volumes of periodic payments to the general public in the various [illegible] programs. Yet, the immediate challenge, in application to every payroll, large and small, is no simple undertaking and is the key to demonstrating the values inherent in the total objective. Its success rests on the active interest and effort of management in every agency, in achieving not only the payroll procedural conversion, but most of all, in making sure that all personnel are fully aware of the benefits, so that all who fail to take advantage of this option are in that category by choice, not through neglect or lack of information.

o 0 o

PURPOSE.

This transmittal letter pertains to (1) only those provisions of 31 U.S.C. 492 and the implementing Treasury regulations contained in Department Circular No. 1076 (First Revision); and (2) only those procedures covered by Chapter 7000, Part III of this Manual which deal with "net pay."

(1) Coverage includes "net pay" to military personnel, notwithstanding the fact that the statute and regulations cited are now confined to procedures for paying civilian personnel (as a result of Public Law 90-365 of 1968).

(2) Although the subject of allotments of pay for savings accounts of civilian personnel is included in the regulations cited (because it was incorporated in 31 U.S.C. 492) that subject is not within the scope of this transmittal letter. Nor is the subject of military allotments of pay in any way related to this transmittal letter (or to the statute or regulations cited).

b. The purpose of this transmittal letter is:

(1) To reiterate existing requirements concerning the drawing of individual checks for net pay in favor of financial organizations for credit to accounts of personnel;

(2) To establish (a) new requirements for the application of the composite check method of having the net pay of personnel credited at financial organizations, and (b) certain beneficial procedures relating thereto;

(3) To request all agencies to convey to all personnel a general reminder of the option to be paid by direct credit in a financial organization, with particular emphasis on the benefits inherent in item (2) in the mutual interests of the personnel and the Government;

(4) To obtain certain Government-wide statistics on the subject matter, early in 1971, serving to update the data on net pay obtained in 1969 in consequence of Transmittal Letter No. 35 -- for the purpose of (a) assessing progress in the general administration of this program and (b) complying with continuing requests of the House Committee on Government Operations for current information on status and progress under the statute.

c. Various sections of Part III, Chapter 7000 of this Manual will be updated at a later date, in conformity with the provisions of this transmittal letter.

2. INDIVIDUAL CHECK FOR PAYMENT OF NET PAY TO ONE INDIVIDUAL BY DIRECT CREDIT TO AN ACCOUNT IN A FINANCIAL ORGANIZATION.

a. Under existing Treasury regulations, (1) it is optional for civilian employees to request to receive their net pay regularly by direct credit to their accounts in financial organizations of their choice; (2) it is mandatory that such payments be made in the form of checks drawn to the order of the designated financial organizations, each individual check being for credit to one employee's account (unless the composite check procedure is applicable); and (3) agency payrolling was required to be converted by not later than June 30, 1969 to cause the checks to be drawn in accordance with item (2).

b. While net pay by direct credit to an account in a financial organization, in behalf of military personnel, is technically no longer within the scope of 31 U.S.C. 492 and the related Treasury regulations, the basic objectives are the same as indicated in sub-paragraph a above. Accordingly, uniform observance of item (2) of sub-paragraph a is requested of every agency, with respect to its military as well as civilian personnel.

c. Every agency is requested to make a report to this office on the extent to which former procedures, which are no longer optional, are still being observed; viz., the payroll records still cause the check to be drawn in favor of the individual as the payee, and the individual's request to have his account credited regularly at a financial organization is accomplished by sending such check to the financial organization -- in which case (1) the "name only" check is mailed by the administrative office with a mailing insert, or (2) the check, inscribed by the disbursing office to show "c/o financial organization and the address," is mailed by the disbursing office. The report will indicate (1) the number of personnel so being paid (separate figures for civilian and military personnel), and (2) the reason or reasons why the payroll records have not yet been converted to the procedure prescribed. If applicable, negative reports are requested.

(1) Agencies under the Treasury's central disbursing system will make their reports to this office, not later than February 1, 1971, based uniformly on their payrolls for the last pay period ending in December 1970.

(2) Agencies which perform their own disbursing will make their reports on this matter as a part of the census reports required in accordance with paragraph 6 below.

3. COMPOSITE CHECK FOR PAYMENT OF NET PAY FOR A NUMBER OF INDIVIDUALS BY DIRECT CREDIT TO ACCOUNTS IN A FINANCIAL ORGANIZATION.

a. The drawing of individual checks to the order of financial organizations for the purpose of carrying out desires of personnel to be paid regularly by direct credit in their financial organizations provides certain immediate advantages, e.g., (1) it obviates a power of attorney from the individual to the financial organization, and (2) a check, so drawn, is virtually "forgery-proof" in the event of loss, etc. Even more significant, for both immediate and long-range objectives, is the fact that the designation of a financial organization as the payee of a check establishes a common payee for as many persons in a given payroll as may select the same financial organization. The so-called "composite check" is drawn in favor of a financial organization in the aggregate amount of net pay of a group of individuals, supported by a remittance record in which each individual is identified as to name, depositor account number and amount.

b. Joint activities of the Bureau of Accounts and the agencies under the Treasury disbursing system, in the application of the composite check procedure, since January 1969, have produced sufficient experience to now require a uniform ground-rule for mandatory extension of that procedure in respect of such agencies.

(1) Agency payrolls shall be organized as soon as possible, but not later than June 30, 1971, (a) to produce a remittance record and to cause a composite check to be issued in favor of a financial organization in the total amount of such remittance record, wherever five or more persons in a payroll have designated the same financial organization; and (b) for the time being, to cause an individual check to be issued in favor of a financial organization for credit to the account of one person, wherever fewer than five persons have designated the same financial organization.

(2) The standard of "five or more" per financial organization applies to a financial organization as a single entity, with a single mailing address and identified by its single account number (i.e., its Employer Identification number assigned by the Internal Revenue Service). In working with each financial organization involved, the Bureau of

Accounts will not permit application of the composite check procedure if the financial organization does not have the capability of accepting remittances at a single point (i.e., if separate remittances need to be received at individual branch offices). Remittances will continue to be made to each of its applicable branch offices in the form of individual checks drawn in favor of such branch offices until such time as the financial organization advises that it has developed the capability of handling the deposit credits from a central point, at which one composite check and remittance record can be received for the particular payroll.

(3) In the course of the foregoing arrangements with the financial organizations, the Bureau of Accounts obtains the applicable Employer Identification numbers and furnishes them to the agency for use in its payroll system. In the next revision of the Standard Form 1189, provision will be made for having the financial organization insert that number on the form, so as to be brought into the payroll records at the outset. In the meantime, personnel executing S.F. 1189 for the first time should be asked to have their financial organization insert its E.I. number alongside its name.

(4) In the composite check procedure, each financial organization E.I. number represents an individual account segment within the payroll. Unlike the similar needs with respect to the allotments of pay for savings accounts, there will be no E.I. number suffixes in the system for net pay and consequently, none of the proliferation of account segments that exist in the allotment of pay situation (for the reason indicated in item (2) above). Generally speaking, the "centralized" capability of financial organizations at this time is much more advanced with respect to checking account deposits than for savings accounts. Considering the fact that very few do not have that capability for checking accounts, the emphasis at this stage is to continue individual checks to branches and to move to a composite check when the financial organization has developed the centralized capability.

(5) As soon as the payroll of any agency reaches the point where a "financial institution segment" covers at least five individuals, the agency is required to consult with the Bureau of Accounts (Technical Staff, 964-8386, area code 202) concerning the mutual actions to be undertaken in the application of the composite check procedure for that payroll. The Bureau of Accounts may initiate such consultation. As a matter of information, a number of agencies and the Bureau of Accounts are presently in the preliminary or implementing stages in converting to composite check procedures which will permit avoidance of more than one million individual checks annually.

(6) In the joint efforts preliminary to application of the composite check procedure for any payroll, consideration will be given

to a proposal that the minimum standard of "five or more" be waived. This contemplates that the "composite check - remittance record" outputs would be produced uniformly, wherever the single F.I. number (without suffix) of a financial organization has been introduced into the payrolling system as the payee account identification, regardless of the number of persons to be listed on the remittance record. Considerations conducive to such a waiver include (a) advantages of uniformity of programming and operations in agency payrolling; (b) the existence of relatively few segments below the 5 to 1 ratio and the normal expectation that, in time, there will be even fewer or no segments with low ratios, because increasing numbers of personnel will elect to be paid by direct credit at a financial organization; and (c) the fact that, in connection with certain procedural matters described hereinafter, the "composite check - remittance record" method (even for a 1 to 1 ratio) provides certain advantages over the "individual check to financial organization."

c. Each agency which performs its own disbursing is hereby required to adopt, in its own regulations, the same "five or more" standard for application of the composite check procedure. A different standard may be authorized, in specific circumstances, based upon an agency's request for a waiver of this requirement.

4. PROCEDURES FOR DELIVERING COMPOSITE CHECKS AND RELATED REMITTANCE RECORDS.

a. The most recent applications of the composite check technique, with the cooperation of several administrative agencies and a large number of financial organizations, have included the testing of a special procedure for delivering the composite checks and the remittance records to financial organizations. The objective was to provide a guarantee that any one who is paid this way will, without fail, receive credit in his account on the established pay day. Such a guarantee is not possible in the case of an individual check, whether it be (1) drawn in favor of and mailed to a financial organization; or (2) drawn in favor of the individual and mailed to his home address or shipped in bulk with other pay checks to his agency site for internal distribution. The special procedure, which is outlined below, has met every expectation and is hereby prescribed for all existing and future composite check applications. The guarantee which it provides should be used, in the mutual interest of the Government and its personnel, to motivate personnel in greater numbers to elect to be paid regularly by direct credit in accounts at their financial organizations -- the prerequisite to more widespread realization of the composite check benefits.

b. The special procedure is as follows:

(1) The administrative (payrolling) office sends directly to the financial organization the remittance record showing name, depositor

account number and amount of net pay for each person involved. This is accompanied by a remittance record summary sheet which, among other things, identifies all parties in the agency and the disbursing office whom the financial organization should contact, if need be. The remittance record and summary sheet should be released in time to be received at the financial organization at least one day before the pay day, preferably two or three days before pay day in some cases. (Some financial organizations with branch offices spread over wide geographical areas need more time than others for processing deposit credits from their central receiving point. Giving such organizations adequate lead time is, of course, desirable for purposes of guaranteeing credit to accounts of personnel on pay day.)

(2) The disbursing office releases in the mails, in time to be received by the financial organization on the established pay day, the composite check in the total amount of the remittance record, accompanied by a copy of the same special summary sheet which accompanied the remittance record from the agency payroll office.

(3) Since items (1) and (2) are separate mailings (both as to timing and mailing point) the likelihood of both being delayed or lost is extremely remote. If either one is not received, the financial organization is able to make direct contact with the agency or the disbursing office, as the case may be, based on the information on the remittance record summary sheet received.

(4) Should a financial organization ever have to contact a disbursing office because the composite check is not received on pay day, the disbursing office will take immediate steps to substitute the missing check, giving the financial organization the option of either (a) having the disbursing office mail the substitute check to it, or (b) having the disbursing office initiate a special action which will cause the account of the financial organization to be credited through the Federal Reserve System by not later than one business day following the pay day. This is the day on which the financial organization would normally have collected the proceeds of the composite check, had it been received on pay day.

(5) A sample of the remittance record summary sheet is attached as Exhibit No. 1. It will be made a standard form following more widespread experience in its use. In the meantime, the small supplies needed should be reproduced by those agencies which are affected.

5. MESSAGE TO ALL GOVERNMENT PERSONNEL.

a. All agencies are requested to convey to all their personnel the message on the subject of "net pay" which is set forth in Exhibit No. 2. The message is to contain the information in the exhibit, as a minimum; it may be expanded for additional points which the agency wishes to include to encourage its personnel to elect to be paid regularly by direct credit to accounts in financial organizations--the method in which everybody gains.

b. With a view to having the maximum number of personnel act voluntarily in favor of the direct credit option prior to the census to be taken at the end of December 1970, each agency's message on this subject should be released to reach all its personnel as soon as possible, but not later than October 30, 1970.

6. GOVERNMENT-WIDE CENSUS OF NET PAY BY DIRECT CREDIT TO ACCOUNTS IN FINANCIAL ORGANIZATIONS.

a. Statistics on net pay will be developed uniformly on the basis of one pay period; i.e., the last pay period ending in December 1970. This means, for example, the pay period ending December 26, 1970 for most civilian agencies and the pay period ending December 31, 1970 for military personnel.

b. Agencies which do their own disbursing are required to submit their reports to this office, in the form of Exhibit No. 3, not later than February 15, 1971. The format is the same as was required in the reports furnished in the 1969 census (Transmittal Letter No. 35) except that line 1 is expanded to show a breakdown of the number of individual checks drawn in favor of individuals according to line 1a (those that are still being drawn payable to one person and are mailed care of financial organizations) and line 1b (all other). Each report showing an entry on line 1a is required to be supported by a narrative statement giving the reason or reasons why the payroll records have not yet been converted to the procedure prescribed (namely, to cause the checks to be drawn to the order of the financial organizations).

c. With respect to all agencies under the Treasury's central disbursing system, the reports in the format of Exhibit No. 3 will be developed through our own regional disbursing office facilities. The breakdown of line 1 in each case will necessarily depend upon the report to be furnished by each agency in accordance with paragraph 2c(1) of this Transmittal Letter. A negative report from an agency, for example, would be indicative of the fact that the agency has converted its payrolling to cause all checks which are to be mailed to financial organizations to be drawn in favor of such financial organizations; and hence, there will be a zero on line 1a and the total of all individual checks drawn in favor of individuals will appear on line 1b. Except for furnishing the information needed for line 1, administrative agencies will not be involved in developing any of the statistics on this subject.

d. The United States Coast Guard will submit a report in the format of Exhibit No. 3 confined to military pay, to the extent of any semimonthly payrolls paid by its "assistant disbursing officers" operating under Treasury delegation.

e. No reports are to be submitted for any payrolls paid by any other assistant disbursing officers (and U. S. Disbursing Officers of the Department of State) operating under Treasury delegation, inasmuch as such payrolls would apply almost exclusively to personnel stationed outside the 48 contiguous states.

7. Any questions should be directed to the Bureau of Accounts, Technical Staff, Treasury Annex No. 1, Washington, D.C. 20226 (Telephone 964-8386; also Area Code 202; IDS 184).

Commissioner of Accounts

SUMMARY SHEET-REMITTANCE RECORD FOR NET PAY TO FINANCIAL ORGANIZATION

The attached remittance record lists all the employees of this agency (by name, depositor account number, and amount) who are being paid by credit to their accounts at your financial organization on the pay date shown.	Signature (agency)

To: Name and complete address of financial organization (including name of specific office within organization which is to receive the remittance record)		Financial organization identification number (E.I. number assigned by IRS)

Pay date	Total amount of remittance record	Number of employees paid

FOR INFORMATION OF FINANCIAL ORGANIZATION: You should receive this Summary Sheet and the attached remittance record before the pay date shown. You should also receive, not later than the pay date, in a separate mailing, a single (composite) check in the aggregate amount of the attached remittance record. The check will be accompanied by a copy of this Summary Sheet for identification purposes. If, after receiving the composite check on the pay date, you have not received the related Summary Sheet and remittance record, you should immediately contact the agency office shown below. If, after receiving this Summary Sheet and attached remittance record, you do not receive the composite check on the pay date, you should immediately contact the disbursing officer shown below. In the latter event, you should nevertheless credit the accounts of the employees listed in this remittance record, on the pay date shown, with assurance that the funds will be made available to you on the date they would have been available had you received the check on the pay date.

Name, complete address, and telephone number of disbursing officer who issues the composite check.	Name and complete address of agency (including name and telephone number of specific office to be contacted).

EXHIBIT No. 2

A MESSAGE TO ALL GOVERNMENT PERSONNEL FROM THE DEPARTMENT OF THE TREASURY

1. All personnel have the right to be paid regularly by having their full net pay credited directly to their account in a financial institution. This message is for you if you want to receive your pay in a way that is safer than any other method, and more economical too, because it saves money and time for the Government and for you. We join the Department of the Treasury in encouraging you to exercise this option. Just get Standard Form 1189 at your payroll office.

a. Net pay refers to the amount of your pay check, whatever that amount happens to be every pay day, after being reduced by all your allotments of pay and all other payroll deductions.

b. Any bank, savings bank, savings and loan association or similar institution or Federal or State chartered credit union may be the financial institution. The choice is yours alone.

c. There is no charge to any financial institution for this option. In fact, it was established to permit everyone to gain, including you and the Government. This should not be confused with the allotments of pay for savings accounts in financial institutions for which there is a service charge, paid by the financial institution. You may have as many as two allotments of pay for savings accounts. Whether or not you have any such allotments, you may elect to receive your net pay directly in any account in your name at a financial institution.

d. When S.F. 1189 is executed at your financial institution, please have them insert alongside their name their identification number (the Employer Identification number assigned by Internal Revenue Service).

2. If you elect this option for your full net pay, on S.F. 1189, the following will happen:

a. Your financial institution will be the payee on your pay checks. If the pay check covers you alone, it will be imprinted to show it is for credit to your account, identified by your name and depositor account number. It will be mailed directly by the disbursing office in time to be received in your financial institution on pay day, regularly.

b. Compare this with how you presently receive and dispose of your pay check and judge for yourself if it saves you time or expense and if it is safer also. If your pay checks (now drawn to your order as the payee) are now delivered to you personally in your office, keep in mind that invariably bulk shipments of one form or another have to be made from the disbursing office to the many agency office points involved. Delays or losses can occur in these movements, whether they be intra-city, inter-city or inter-state. When that occurs, it usually means some hardship to personnel in the form of pay delay; it always means extra work for the Government in issuing substitute checks under emergency procedures. And it can be much more troublesome for all concerned, if such a check is stolen and forged.

c. Once you exercise the option with S.F. 1189, you need never be concerned about the possibility of a forgery--because your own financial institution is the payee and a check so drawn is "forgery-proof."

d. But most important of all, for you and for the Government, if you submit S.F. 1189, it will be possible to re-arrange the procedures to get certain additional mutual benefits. When a number of persons in the payroll have designated the same financial institution, the net pay of all the individuals involved will be shown on a list, and a single, composite check will be drawn in favor of the financial institution for the aggregate amount of the list. Obviously, the Government can thereby save the expense of preparing and mailing not only tens of thousands but potentially millions of individual pay checks annually. As personnel in increasing numbers elect to be paid by direct credit in a financial institution, there will be more and more opportunities for worth-while use of this composite check procedure.

e. Not only is this a choice which leads to reduced operating costs, it is for you the safest and most effective way of assuring receipt of your pay, on time, every pay day. How?

(1) In this procedure, the list (covering as many persons who have elected to be credited at the same financial institution) is sent by the payroll office directly to the financial institution well in advance of pay day.

(2) The composite check is released by the disbursing office in time to be received by the financial institution on the pay day.

(3) Items (1) and (2) are separate mailings, from different places at different times. Loss or delay of any one of them in the mail does not cause any hardship for any personnel.

(4) In arranging for this procedure with the financial institution, the Government guarantees quick credit to the financial institution in the event the composite check is not received by pay day. And the financial institution guarantees that the accounts of all the participating personnel will be credited on the established pay day, based on the list, regardless of what may happen to the composite check. Your account is credited on time even if the check is delayed or lost and even if it is stolen--and even if it were to be stolen somewhere it could not conceivably be cashed anywhere.

3. So--if you are convinced, pick up S.F. 1189 and proceed in your own self-interest.

389 EXHIBIT No. 3

ANALYSIS OF NET PAY ACTIVITY
(TREASURY CIRCULAR NO. 1076 REVISED)

DEPARTMENT OR INDEPENDENT AGENCY: ____________________ □ Civilian Net Pay
□ Military Net Pay

Payrolls paid for pay period of: ________ to ________

Pay checks issued: □ Biweekly □ Semimonthly □ Monthly

	Number of	
	Personnel (1)	Checks (2)
1. Individual check drawn payable to one person paid (Col. 1 = Col. 2):		
a. Mailed c/o financial organization	______	______
b. All other	______	______
c. Total pay checks drawn in favor of individuals	______	______
2. Individual check drawn payable to a financial organization for credit to account of one person paid (Col. 1 = Col. 2)	______	______
3. Composite check drawn payable to a financial organization for credit to accounts of several persons paid (as per remittance record) 1/...........	______	______
Total of Column 1	______	
4. Number of individual checks avoided this pay period (excess of Col. 1 over Col. 2 on line 3 only)	XXXXXX	______
Total of Column 2 (equals Col. 1)		______
5. Annualized volume of individual checks avoided (line 4, Col. 2, times applicable number of pay periods annually)		______
6. Costs avoided (annual) for line 5: 2/		
a. For Postage		______
b. For all other classes of costs for the reporting agency only		______
c. Total (estimated annual savings)		______

1/ If no composite check applications, so indicate by inserting N/A in Columns 1 and 2.

2/ Include only the estimates of those costs which, but for the individual checks avoided, would have been incurred within the reporting agency.

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

FOR RELEASE ON DELIVERY

REMARKS OF BRUCE K. MACLAURY
DEPUTY UNDER SECRETARY OF THE TREASURY
FOR MONETARY AFFAIRS
AT THE
MUNICIPAL CONFERENCE OF THE INVESTMENT
BANKERS ASSOCIATION OF AMERICA
SAN ANTONIO, TEXAS
FRIDAY, OCTOBER 16, 1970
9:30 A.M., C.D.T.

THE IMPACT OF THE FEDERAL GOVERNMENT ON THE MARKET FOR STATE AND LOCAL SECURITIES

When one talks about the impact of the Federal Government on the market for state and local securities, I can well imagine that different images come before different peoples' eyes. I have the distinct impression that during much of the past year the obvious difficulties of the municipal market were laid at the door of the federal government, and -- to the extent Congress was not the culprit -- specifically attributed to the actions and attitudes of the Treasury.

I'm referring, of course, to the trials and tribulations that attended the tax reform effort last year, and the questions raised more recently by the IRS concerning the deductibility by banks of interest costs associated with the carrying of tax-exempt securities. Although I don't hold out much hope of convincing you that we were not guilty on any count of the crimes alleged, I am glad that the improved market conditions of the past few months have cooled passions sufficiently to permit Treasury officials to appear once again with safety as guests on IBA panels.

I readily concede that tax collectors must always remain suspect in the eyes of those who buy, sell, or deal in tax-exempt securities. And indeed, the Treasury was once on record, back in 1942; as seeking the outright elimination of tax exemption on all securities, following its own foreswearing of the use of tax-exemption the preceding year. But admitting this prejudicial heritage, I would still maintain that our actions over the past year should not be read as a failure to keep the faith, but rather a reflection of the spirit of the times. After all, it would have been too much to expect, I think, that with tax reform the irresistible force of the day, tax-exempt securities would have escaped unnoticed. In fact,it seems more reasonable to argue that the miracle was that they emerged from the exercise completely unscathed.

Similarly, although I recognize that the question concerning IRS interpretation of Section 265(2) of the Internal Revenue Code as it applied to banks came at an unfortunate time from the point of view of market pressures on municipal securities, I assure you that this timing was in no way intentional. Nor was this an effort to accomplish through administrative procedures what was not achieved in legislation, as I've heard alleged. Indeed, I think you will agree that the resolution of this difficult problem has met with general satisfaction on the part of the market.

If the Treasury is not out to "get" tax exemption, there is no denying that certain aspects of the federal government's relationship and involvement with State and local financing do disturb us. One obvious concern -- in fact one of long standing -- is the continuing battle against pressures to provide federal guarantees for tax-exempt securities. There is an obvious appeal to the idea of putting the federal government's name on a local government obligation as guarantor -- it is a way to provide assistance to potential borrowers without any apparent cost, and this something-for-nothing aspect of the guarantee is hard to resist.

But clearly, there are costs associated with guarantees, apart from the obvious ones of making good in case of default by the borrower. One cost that is real though hard to measure is the homogenization of credit that results from indiscriminate use of guarantees. If we believe that, broadly speaking, the capital markets do an effective job of allocating funds to various borrowers on the basis of risk differentials, then drawing an ever-increasing segment of the flows in the capital markets under the government's umbrella is unfortunate in that it undercuts this allocation process. By the same token, of course, if there are specific credit needs that are not being met, yet on social or other grounds there is a consensus that they should be, the federal guarantee can be a useful way of changing the relative attractiveness of specific debt instruments. The key here is discriminating, rather than wholesale, use of federal guarantees.

Another cost that is particularly relevant in the case of guarantees of local government obligations is the inescapable need for the federal government to become involved to a greater or lesser extent in the details of the projects that are being financed. This follows not only from the principle of discriminating use of guarantees, but also from the requirement that the taxpayers' money that is potentially at risk be committed prudently.

Considerations such as those I've just mentioned apply to the use of federal guarantees generally, but there are special problems when the securities to be guaranteed are tax-exempt. In the first place, by putting its name on a tax-exempt obligation, the federal government is creating a piece of paper that is more desirable to investors than its own obligations. While I stick by my statement that we're not out to do in tax-exemption, I don't think we should be expected to add our seal of approval and thereby enhance tax-exemption at the federal government's expense. In fact, of course, it's not just the federal government that loses in this process, but state and local authorities as well, whose non-guaranteed obligations are required to compete with these super instruments.

Losses from federal stimulation of tax exempt issues through guarantees cannot be measured solely in terms of the presumably higher borrowing costs that will confront non-guaranteed issuers. The calculation must also take into account the inefficiency of tax-exemption as a means of revenue sharing. This complex and controversial subject has been debated endlessly between the Treasury and the IBA, among others, and I have no hope of resolving the issue today. But I do want to go on record as personally being persuaded of the logic of the Treasury's position; namely, that the revenue loss to the Federal government from tax exemptions substantially exceeds the value of reduced interest costs to State and local governments. If one pushed the logic of this position to its ultimate conclusion, one would have to admit that tax exemption as such should be abolished and the resulting increase in federal revenues be distributed to local governments through subsidies. Again, however, I would emphasize that this is not the Treasury's position. At the same time, however, I see no reason why we should go to the opposite extreme and promote the expansion of an inefficient subsidy through the encouragement of federal guarantees.

Frankly, the Treasury has been making so much noise about the adverse consequences of federal guarantees of tax exempt securities for so long, that this is no longer the hot issue it once was -- though it still continues to crop up frequently. We now find ourselves having to do battle against a more subtle variant of the guarantee -- the debt service grant. Many of those who concede that the government shouldn't be guaranteeing tax-exempt securities outright are nevertheless attracted by the concept of the debt-service grant. This attitude even flourishes in some areas of the Government, I must sadly confess. Yet the debt service grant is not only analogous to a guarantee in that the lender looks to federal government revenues as the source of his assured repayment, but it is analogous in the sense of federal government sponsorship and stimulation of additional tax-exempt borrowing. Indeed, in this last respect, it is worse than a guarantee since it normally inspires a larger amount of local government borrowing than would a program relying on a combination of lump sum grants and guarantees. Let me explain. The attractiveness of the debt service grant from the point of view of the federal government is the seemingly larger bang for the current budget buck. Thus, to stimulate a given level of capital outlays, the federal government can put up less money in the form of lump sum grants to local authorities, and instead stimulate the financing of a larger share of the program through local government borrowing on the basis of promises to pay in the future. So far as the Federal budget is concerned, it's fly now, pay later.

The price of reliance on debt service grants is not only magnified expansion of local government borrowing, but built-in rigidity for the Federal budget. Everyone laments the fact that Federal expenditures seem to have a life force of their own that is very difficult to influence. This phenomenon has many causes, of course, but one of them certainly is the fact that so many outlays are uncontrollable in the short run. Interest on the national debt is the usual example, along with transfer payments under social insurance programs. But the contractual obligation to pay debt service on local government securities is just as uncontrollable. In effect, the greater the shift from lump sum grants to debt service grants, the greater the loss of budget flexibility, and the greater the difficulty in shifting national priorities.

The impact of the Federal government on the market for State and local securities is not confined to the issues we have been discussing so far: tax reform, IRS actions, guarantees and debt service grants. In fact, the latter two are simply outward manifestations of the more basic influence of federal programs on the tax exempt market. In the broadest sense, of course, the way in which the federal government finances the totality of its programs -- by taxes or by borrowing -- has a very real impact on the availability of funds for investment in State and local obligations. But I am referring more specifically to the growing array of "partnership programs" to be financed jointly by federal and local governments.

This partnership concept is by no means new. One of the granddaddys in this area, both in terms of size and longevity, is the public housing program. It is estimated that this year, fiscal 1971, public housing and urban renewal will generate some $2 billion of obligations to be financed in the tax exempt market. Over the next 5 years the development of waste treatment facilities under the

Federal Water Pollution Control program alone is expected to require a total of $10 billion, of which $6 billion will have to be supplied on a matching basis by local government borrowing. An Administration-backed bill before the Congress for improving public transit systems provides for $5 billion over the next 5 years with the Federal Government absorbing $3 billion in this program. In the recently enacted airports bill the Government will absorb about half of the price tag of $2.7 billion. Other existing programs, such as programs for health facilities, college housing, academic facilities, etc., will no doubt require expanded credit assistance in the years ahead. All these examples point unmistakably to one conclusion: that the Federal government is going to have a very substantial impact on the state and local market by the expansion of programs that rely for a substantial portion of their financing -- under present procedures -- on that very market. There is a real danger, it seems to me, that Federally-sponsored programs are going to pre-empt such a substantial share of this market, that local governments will find it increasingly costly to raise funds to meet their own needs.

And I hardly need point out to this audience that those needs are very large indeed. At present the amount of State and local obligations outstanding approaches $140 billion, or about double the amount outstanding at the end of 1960. This means that the annual rate of growth in municipal debt during the last decade was slightly less than 9 percent. Even if we assume the same 9 percent growth for the 1970's, the municipal market will have to expand by another $100 billion before the present decade is half over. Actually, this projection may be too conservative. According to press reports, a group of State Governors during the recent Governors' Conference held at Osage Beach, Missouri, estimated municipal borrowing needs at an additional $150 billion over the next 6 years.

Admittedly, one can come up with scare figures at the drop of a calculator, but the trends are not encouraging, given the limited elasticity of the tax-exempt market. Innovations introduced by local governments so far do not hold out great promise of relief. On the contrary, some innovations may do more harm than good. The recent emergence of State agencies formed for the specific purpose of raising funds in the tax-exempt market and rechannelling these funds into the private housing market is a case in point. Several States have set up such agencies with plans to raise hundreds of millions of dollars in the near future. If this practice spreads to other States, the result could be added demands on the tax-exempt market of significant proportions -- significance in the sense that the added supply of tax-exempts would so force rates up as to diminish further the differential between tax-exempt and taxable bond yields.

What can the Federal Government do to help the municipal market? By far the most important contribution would be to provide a climate of noninflationary growth in the entire economy. At the same time the Government must establish better control over the growth of Federal credit programs, taking them into account as we set the course for monetary and fiscal policies. Where it seems appropriate, Federally-sponsored programs should provide alternative methods for financing the local government participation. Several innovations have been made this year alone, and more are pending before Congress. The recently passed medical facilities bill makes it possible for the Department of Health, Education, and Welfare to purchase and sell debt obligations arising in connection with publicly-owned health facilities. The Secretary of Health, Education and Welfare is authorized to sell these obligations in the private market with Government guarantees and on a taxable, not on a tax-exempt, basis. As you know, the 1971 budget contains provisions for loans to rural communities by the Farmers Home Administration to be sold to private investors with a Government guarantee. Under proposed legislation, these asset sales would give rise to taxable rather than tax-exempt obligations.

Finally, there is the Administration proposal for an Environmental Financing Authority. This agency would borrow funds in the private market by issuing taxable securities, for the purpose of lending these funds to State and local governments to finance their portion of the construction costs associated with the development of waste treatment facilities in those projects currently receiving grants from the Department of Interior. Only those municipalities that were unable to borrow the required funds at reasonable rates would be eligible to use EFA's facilities. This proposal has already received widespread support in Congress, and was recently endorsed by the Advisory Commission on Intergovernmental Relations.

All these innovations have one thing in common: they are designed to relieve some of the added strains that will be placed on the tax-exempt market by Federally-sponsored programs by permitting a portion of the financing requirements to be shifted to the taxable market. We believe that this approach has much to commend it from the point of view of all parties involved. Far from constituting a threat to the privilege of tax exemption, these innovations will have the effect of preserving the value of that privilege. If tax exemption is threatened, it is threatened by a potential inundation of issues, not by the Machiavellian machinations of the Treasury.

oOo

Department of the TREASURY NEWS

HINGTON, D.C. 20220 TELEPHONE W04-2041

FOR RELEASE ON DELIVERY

TESTIMONY TO BE PRESENTED BY
MR. AMOS N. LATHAM, JR., DIRECTOR OF PERSONNEL
AT HEARINGS CONDUCTED BY THE FEDERAL LABOR RELATIONS COUNCIL
ON EXECUTIVE ORDER 11491
OCTOBER 8, 1970

Mr. Chairman, members of the Council, my name is Amos N. Latham, Jr. I am Director of Personnel of the Department of the Treasury. Before beginning my comments on Executive Order 11491 I think it may be helpful to give you an idea of the extent of union activity in our Department. The Department of the Treasury consists of 10 Bureaus plus the Office of the Secretary and currently employs about 87,000 people. 58,500 or 67% of these people are covered by exclusive recognitions. A total of 17 different unions hold exclusive recognitions within the Department and 51 negotiated agreements are currently in effect covering 37,000 employees. As you see, Treasury is one of the most highly unionized agencies in the Federal Government.

We have been living under E.O. 11491 for about a year now. Our experience under the Order so far has been limited largely to the areas of representation and negotiation. But, we have had time to study and reflect on the whole Order and to develop comments and recommendations concerning its provisions. On the whole we believe that E.O. 11491 establishes a progressive and workable system for Federal labor-management relations. The fundamental structure of the Order is sound and should remain unchanged. The provisions of the Order dealing with the scope of negotiation and with the forms of recognition should also remain intact.

Our suggestions for change deal (1) with the makeup and workings of the bodies charged with administering the Order and (2) with what we consider to be an ambivalent provision of the Order, Section 7(e).

E.O. 11491 initially created many problems for us. There were voids between the old order and the new and transition from one to the other raised questions and caused confusion, especially in the area of representation. Matters were not helped by the fact that the administrative bodies; the Council; the Department of Labor; the Impasses Panel and the Federal Mediation and Conciliation Service were slow in issuing regulations and in staffing up to meet the new workload. Almost all of these bodies are now staffed and in operation. Yet, the Council itself has just issued final review regulations, has only proposed a date for the termination of formal recognition and has only proposed eligibility criteria for national consultation rights. The Council has not as yet made any interpretations of the Executive Order and it has not publicly heard any appeals or issued any decisions. We feel that this lack of visible activity by the Council has created a harmful vacuum in the labor relations program. The leadership which the Council should be providing has been missing.

We do not point to these facts to criticize the Council. Rather we feel that these facts clearly point up a flaw in the required composition of the Council. Under the Executive Order the Council is composed of men who hold positions of the highest responsibility and authority in the Government. It is unfair to presume that the same men who fill these high positions can find adequate time above and beyond their normal duties to provide leadership and direction to a labor relations program involving more than 2 million federal employees.

Under current conditions, to function at all, the Council must delegate much of its authority to its Executive Director. We have great personal regard for the Executive Director and for his proven ability in the field of federal labor relations. Yet, when much of the authority of the Council is reposed on one man the form and spirit of the Council is lost.

Beyond the time problem we can see inherent conflicts of interest between membership on the Council and the positions of CSC Chairman, Secretary of Labor, and Director of the Office of Management and Budget. To avoid all of these difficulties we suggest that serious consideration be given to changing the composition of the Council. We suggest that the Council consist of three full-time members appointed by the President. With full-time members the Council can direct the federal labor relations program by participating actively in hearings, in decision making, and in interpreting the Executive Order. By being independent of other agencies of the Government the Council members would avoid potential conflict of interest problems. An effective alternative to changing the present membership of the Council would be to expand the Council. Such expansion is now possible under Section 4(c) of the Order.

The role of the Department of Labor under the Order apparently needs clarifying. We believe that interpretations of the Executive Order should only be made by the Council and we assumed that under Section 4(b) of the Order the Council would be the only body to issue interpretations of the Order. Yet, on July 21, 1970, the Assistant Secretary of Labor for Labor Management Relations published a new part to Title 29 USC entitled Interpretations. This new part contained an interpretation of the Executive Order by the Assistant Secretary for Labor Management Relations. Such interpretations by administrative bodies other than the Council cause confusion and can be a divisive influence in the operation of the labor relations program. They detract from and diminish the Council's role as administrator and interpreter of the Executive Order and encroach upon the Council's prerogative to decide major policy issues. Therefore we recommend that the Council be the sole interpreter of the Order.

In observing the decisions of the Department of Labor in representation matters we are disturbed by an apparent heavy reliance upon National Labor Relations Act and National Labor Relations Board precedent. We feel that there is a danger in attempting to fit federal representation questions into the NLRA and NLRB mold. Federal labor relations under the Executive Order differs from private labor relations under the NLRA. Unlike the NLRA, the Executive Order not only establishes a labor relations system; it describes the personnel program which the President feels is needed to effectuate efficient administration of the Government. Because of this, Federal managers have a double obligation to implement the Executive Order.

Unlike the private manager, the federal manager is subject to unique pressures. The pressures of public service, of congressional interest, of Presidential mandate, of law and internal and external regulation all have an impact on labor-management relations. Because of these unique pressures and the dual obligations under the Order we recommend that the Council establish a policy whereby all administrative bodies under the Order are encouraged to employ a flexible approach in solving the problems before them. This policy should provide that decisions under the Executive Order be molded to fit the unique needs of the federal labor-management relations system. Such a policy, for example, would allow for a definition of "professional" which would recognize the unique aspects of federal positions.

In general, we have been awed by the proliferation of regulations which have been issued by the various administrative bodies during the past ten months. As a result of this proliferation administering the Executive Order has become highly complex and intricate. Neither management nor the unions can conduct their relations without expert assistance. Anything that can be done by the Council to simplify administration would be desirable. One helpful action would be to combine in one reference publication all of the various regulations, decisions and interpretations implementing the Order.

We fully agree with the sense of Section 7(e) of the Order. However, we feel that a provision like this, which deals with intra-management communication, is out of place in a labor-management relations order. Devising methods for intra-management communication represents a managerial problem and that problem should be left to the various agencies to solve. I am sure that all agencies realize the importance of intra-management communications as well as the importance of making supervisors truly members of management.

While recommending that the requirement for a system of intra-management communication be deleted from the Order, we feel that the question of supervisory associations should be discussed further in the Order. We feel that supervisory associations must be defined. Specific guidelines and criteria are needed to aid management in determining whether or not to recognize and consult with supervisory associations. As a minimum supervisory associations should follow democratic procedures in the election of officers and be free from corrupt influences and influences opposed to basic democratic principles. Supervisory associations should be required to represent a substantial number of supervisors before they can gain consultation or dues deduction privileges. While supervisory associations should be treated differently than labor organizations, some guidelines are needed.

Thank you for this opportunity to present our views. I will be happy to answer any questions.

UNITED STATES SAVINGS BONDS ISSUED AND REDEEMED THROUGH September 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
URED				
ries A-1935 thru D-1941	5,003	4,997	6	.12
ries F and G-1941 thru 1952	29,521	28,489	31	.11
ries J and K-1952 thru 1957	3,754	3,739	15	.40
ATURED				
ries E[3] :				
1941	1,893	1,691	202	10.67
1942	8,357	7,466	889	10.64
1943	13,444	12,045	1,399	10.41
1944	15,686	13,973	1,713	10.92
1945	12,334	10,829	1,505	12.20
1946	5,605	4,752	853	15.22
1947	5,326	4,371	955	17.93
1948	5,513	4,443	1,070	19.41
1949	5,454	4,321	1,133	20.77
1950	4,773	3,727	1,046	21.91
1951	4,126	3,221	905	21.93
1952	4,324	3,352	972	22.48
1953	4,940	3,751	1,189	24.07
1954	5,037	3,762	1,275	25.31
1955	5,248	3,870	1,378	26.26
1956	5,072	3,701	1,371	27.03
1957	4,779	3,429	1,351	28.27
1958	4,663	3,234	1,429	30.65
1959	4,375	2,982	1,393	31.84
1960	4,386	2,877	1,509	34.40
1961	4,451	2,780	1,671	37.54
1962	4,311	2,593	1,717	39.83
1963	4,804	2,682	2,123	44.19
1964	4,682	2,643	2,039	43.55
1965	4,578	2,561	2,017	44.06
1966	4,931	2,622	2,309	46.83
1967	4,882	2,510	2,372	48.59
1968	4,631	2,249	2,382	51.44
1969	4,338	1,771	2,567	59.17
1970	2,025	386	1,639	80.94
Unclassified	842	850	-8	-
Total Series E	169,811	125,447	44,364	26.13
es H (1952 thru May, 1959)[3]	5,485	3,688	1,797	32.76
H (June, 1959 thru 1970)	7,534	2,280	5,252	69.71
Total Series H	13,017	5,968	7,049	54.15
Total Series E and H	182,828	131,415	51,414	28.12
Series { Total matured	38,277	38,225	52	.14
Series { Total unmatured	182,828	131,415	51,414	28.12
Series { Grand Total	221,106	169,640	51,466	23.28

accrued discount.

redemption value.

n of owner bonds may be held and will earn interest for additional periods after original maturity dates.

Department of the TREASURY NEWS

HINGTON, D.C. 20220 TELEPHONE WO4-2041

FOR IMMEDIATE RELEASE October 8, 1970

UNITED STATES AND MOROCCO TO HOLD PRELIMINARY DISCUSSIONS OF AN INCOME TAX TREATY

The Treasury Department announced today that representatives of the United States and Morocco will meet in Rabat later this month to begin discussions of a proposed bilateral income tax treaty.

Currently there is no income tax treaty existing between the two countries.

The proposed treaty is intended to avoid double taxation and to facilitate trade and investment between the two countries. It will be concerned with the tax treatment of income of individuals and companies from business, investment, and personal services and will establish procedures for administering the provisions of the treaty.

The "model" income tax treaty developed by the Organization for Economic Cooperation and Development will be taken into account along with recent United States treaties with other countries, such as the treaty with France ratified in July, 1968 and the treaties with Belgium, Finland and Trinidad and Tobago now pending before the Senate for ratification.

Persons wishing to comment concerning the proposed treaty are requested to send their comments in writing by October 19, 1970 to Edwin S. Cohen, Assistant Secretary of the Treasury, Treasury Department, Washington, D.C. 20220.

K-505

oOo

ATTENTION: FINANCIAL EDITOR

FOR IMMEDIATE RELEASE October 8, 1970

SALE OF $2.5 BILLION JUNE TAX ANTICIPATION BILLS

The Treasury Department today announced the sale of $2.5 billion of tax anticipation bills which will mature in June 1971.

The bills will be auctioned on Thursday, October 15, for payment on Wednesday, October 21. Commercial banks may make payment for their own and their customers' accepted tenders by crediting Treasury tax and loan accounts.

The bills will mature on June 22, 1971, but may be used at face value in payment of Federal income taxes due on June 15, 1971.

Department of the TREASURY NEWS

ISHINGTON, D.C. 20220 TELEPHONE WO4-2041

TENTION: FINANCIAL EDITOR

R IMMEDIATE RELEASE October 8, 1970

TREASURY OFFERS $2.5 BILLION IN JUNE TAX BILLS

The Treasury Department, by this public notice, invites tenders for $2,500,000,000, thereabouts, of 244-day Treasury bills, to be issued on a discount basis under mpetitive and noncompetitive bidding as Hereinafter provided. The bills of this ries will be dated October 21, 1970, and will mature June 22, 1971, USIP No. 912793 MD5). They will be accepted at face value in payment of income xes due on June 15, 1971, and to the extent they are not presented for this rpose the face amount of these bills will be payable without interest at maturity. xpayers desiring to apply these bills in payment of June 15, 1971, income taxes y submit the bills to a Federal Reserve Bank or Branch or to the Office of the easurer of the United States, Washington, not more than fifteen days before that te. In the case of bills submitted in payment of income taxes of a corporation ey shall be accompanied by a duly completed Form 503 and the office receiving ese items will effect the deposit on June 15, 1971 . In the case of bills omitted in payment of income taxes of all other taxpayers, the office receiving e bills will issue receipts therefor, the original of which the taxpayer shall omit on or before June 15, 1971, to the District Director of Internal Revenue r the District in which such taxes are payable. The bills will be issued in rer form only, and in denominations of $10,000, $15,000, $50,000, $100,000, 00,000 and $1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the osing hour, one-thirty p.m., Eastern Daylight Saving time, Thursday, October 15, 1970. nders will not be received at the Treasury Department, Washington. Each tender t be for a minimum of $10,000. Tenders over $10,000 must be in multiples of $5,000. the case of competitive tenders the price offered must be expressed on the basis 100, with not more than three decimals, e.g., 99.925. Fractions may not be used. is urged that tenders be made on the printed forms and forwarded in the special elopes which will be supplied by Federal Reserve Banks or Branches on application refor.

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

All bidders are required to agree not to purchase or to sell, or to make any agreements with respect to the purchase or sale or other disposition of any bills of this issue at a specific rate or price, until after one-thirty p.m., Eastern Daylight Saving time, Thursday, October 15, 1970.

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 $400,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank in cash or other immediately available funds on October 21, 1970. Any qualified depositary will be permitted to make settlement by credit in its Treasury tax and loan account for Treasury bills allotted to it for itself and its customers.

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 considered to accrue when the bills are sold, redeemed or otherwise disposed of, and the bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder must include in his income tax return, as ordinary gain or loss, the difference between the price paid for the 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.

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

HINGTON, D.C. 20220 TELEPHONE WO4-2041

NEWS

IMMEDIATE RELEASE FRIDAY, OCTOBER 9, 1970

THE NATION'S MONEY MAKERS ARE SAFETY CONSCIOUS

The Treasury Department presented its 1969 Safety Awards of Honor to the Bureau of the Mint and the Bureau of Engraving and Printing at ceremonies held today in the Departmental Auditorium.

Both of these Treasury Bureaus operate industrial type plants where the federal coins and currency are manufactured.

Mary T. Brooks, Director of the Mint, accepted the Safety Award on behalf of the Mint's 1800 employees from Under Secretary Charls E. Walker who noted it was the first time the Bureau of the Mint had won the award.

James A. Conlon, Director of the Bureau of Engraving and Printing, accepted his Bureau's Safety Award on behalf of his 3,300 employees. It was the third time his Bureau's employees had won the award since 1962.

Because of the impressive reduction in on-the-job injuries the Under Secretary said Mint employees are particularly deserving of the Award.

"Foundry workers face exceptional hazards, as anyone who has witnessed a metal melt and the pouring of hot metal knows," Under Secretary Walker said. "Mint workmen face additional hazards as well in the operation of the heavy machines required to make coins and medals."

The Bureau of the Mint produces the federal coinage and national medals at three manufacturing plants located at Philadelphia, Pennsylvania; Denver, Colorado; and San Francisco, California. The majority of the Mint's employees are engaged in jobs of a hazardous nature.

The federal currency, other government securities, and postage stamps are produced by the Bureau of Engraving and Printing. Engaged in round-the-clock production activity during 1969, the Bureau's production exceeded thirty-three and a half billion printed security items, the most productive year in its history.

Since the Safety Awards Program was instituted in 1958, the Mint's injury rate has improved 59 percent. Over the past three years, the rate of improvement leaped 32 percent, and the injury rate improvement in 1969 over 1968 was 1. 4 percent. "The success of the Mint's safety program can be attributed to the hiring in 1966 of a fulltime safety engineer at each of the coining institutions who devised and implemented a safety program tailored to the specific needs of people working in a foundry and with heavy equipment," Mrs. Brooks said.

A new Safety Award Program was instituted in the Bureau of Engraving and Printing in April 1969, emphasizing Safety Awareness. As a result, 19 production sections with over 925 employees worked a full year without a single disabling injury, and the accident rate dropped throughout the plant. "The significant improvement was achieved in spite of 24-hour operations and heavy overtime, which included 7-day a week requirements, noted Mr. Conlon. He added, "The target for the Bureau of Engraving and Printing in the current year is to prove their winning the 1969 Award was no accident."

oOo

Department of the TREASURY NEWS

INGTON D.C. 20220 TELEPHONE WO4-2041

ENTION: FINANCIAL EDITOR

RELEASE 6:30 P.M.,
day, October 9, 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 July 16, 1970 , and other series to be dated October 15, 1970 , which were offered on October 2, 1970, e opened at the Federal Reserve Banks today. Tenders were invited for $ 1,800,000,000 thereabouts, of 91 -day bills and for $ 1,400,000,000 or thereabouts, of 182-day ls. The details of the two series are as follows:

GE OF ACCEPTED	91 -day Treasury bills		:	182-day Treasury bills	
IPETITIVE BIDS:	maturing January 14, 1971		:	maturing April 15, 1971	
		Approx. Equiv.	:		Approx. Equiv.
	Price	Annual Rate	:	Price	Annual Rate
High	98.488 a/	5.982%	:	96.870	6.191%
Low	98.466	6.069%	:	96.850	6.231%
Average	98.476	6.029% 1/	:	96.853	6.225% 1/

a/ Excepting 2 tenders totaling $210,000
10% of the amount of 91-day bills bid for at the low price was accepted
43% of the amount of 182-day bills bid for at the low price was accepted

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

istrict	Applied For	Accepted	:	Applied For	Accepted
oston	$ 27,245,000	$ 18,245,000	:	$ 15,590,000	$ 5,340,000
ew York	2,050,845,000	1,256,345,000	:	2,479,810,000	1,063,460,000
hiladelphia	34,845,000	19,845,000	:	22,970,000	7,970,000
leveland	37,170,000	35,870,000	:	52,665,000	23,865,000
ichmond	23,875,000	21,875,000	:	40,395,000	33,895,000
tlanta	45,075,000	35,475,000	:	34,660,000	15,770,000
hicago	246,565,000	194,565,000	:	333,280,000	132,630,000
t. Louis	44,530,000	36,760,000	:	47,285,000	40,625,000
inneapolis	33,045,000	24,045,000	:	29,845,000	5,245,000
ansas City	38,665,000	36,585,000	:	31,490,000	22,050,000
allas	29,430,000	17,430,000	:	28,285,000	14,245,000
an Francisco	167,125,000	103,625,000	:	325,125,000	36,950,000
TOTALS	$2,778,415,000	$1,800,665,000	b/	$3,441,400,000	$1,402,045,000 c/

Includes $ 319,655,000 noncompetitive tenders accepted at the average price of 98.476
Includes $ 206,735,000 noncompetitive tenders accepted at the average price of 96.853
These rates are on a bank discount basis. The equivalent coupon issue yields are
.21% for the 91-day bills, and 6.52 % for the 182-day bills.

Department of the TREASURY

NEWS

HINGTON, D.C. 20220 TELEPHONE W04-2041

FOR RELEASE ON DELIVERY

SUMMARY OF
STATEMENT OF THE HONORABLE EDWIN S. COHEN
ASSISTANT SECRETARY FOR TAX POLICY
BEFORE THE
SENATE FINANCE COMMITTEE
ON THE TREASURY'S
DOMESTIC INTERNATIONAL SALES CORPORATION PROPOSAL
10:00 A. M. (EDT), OCTOBER 9, 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 and to urge its approval by the Committee. We make this recommendation because the U. S. tax system presently results in an income tax disadvantage to U. S. export sales as contrasted with foreign production by subsidiaries of U. S. companies, or by 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.

The DISC proposal is now before the Committee in the form of Title IV of amendments No. 925 and 1009 to H. R. 17550. The House Ways and Means Committee has reviewed this proposal in detail and reported it to the House as Title IV of H. R. 18970. All of these provisions are identical and I will simply refer to them as the DISC Bill.

We strongly support the provisions of the DISC Bill which recognizes the importance of a change in the income tax rules applicable to U. S. exports.

While income tax factors are important, we recognize 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 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. A memorandum summarizing provisions in foreign laws affecting export activities is being furnished today to the Committee.

In 1962, legislation was enacted to tax currently United States shareholders on certain sales and services income earned by controlled foreign subsidiaries including income on exports from the United States which were diverted to low tax countries. However, as a result of certain major exceptions that were enacted at that time, deferral of export sales income remains available, but only for the U. S. corporation which also has extensive foreign manufacturinơ activities.

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, moreover, they are frequently able to use the foreign tax credit to reduce, even after distribution, their U. S. tax liability on export earnings. To the extent such deferral and reduction are being achieved under present law, the tax deferral effect of the DISC proposal would not involve a revenue loss through a postponed receipt. The DISC would work particularly in favor of companies without existing large foreign structures and without extensive foreign tax credits.

Accordingly, the DISC will provide equivalent opportunities for tax deferral for foreign source income arising 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.

I would like to summarize briefly the main features of the proposal as set forth in the DISC Bill. The proposal is simple in concept. 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 of such a corporation would be deferred as long as it is used in the corporation's export business, loaned to export producers or invested in obligations issued or guaranteed by the Export-Import Bank, and thus is not distributed to the DISC's shareholders. Upon distribution of dividends, the income would be fully taxed to the shareholders, at the full U. S. corporate tax rate in the case of corporate shareholders, and at full personal income tax rates in the case of individual shareholders.

The qualification requirements are that a DISC must be a domestic corporation, must have 95 percent of its receipts in the form of export receipts, must have 95 percent of its assets in the form of qualified assets, must have only one class of stock and a minimum capitalization of $2,500, and must have made an election to be treated as a DISC.

Exports are determined by a destination test. To qualify as an export the property must be sold or leased for direct use, consumption or disposition outside of the United States (or sold to an unrelated DISC for export by the latter). To qualify as export property, not more than 50 percent of the fair market value of the property exported can be attributable to articles imported into the United States. The President is authorized to exclude from export property any property determined to be in short supply domestically.

The DISC may reinvest its export earnings in its export business. This would include investments in warehousing, assembly and transportation facilities used in its export business and in foreign branches or sales subsidiaries where 95 percent of the income arises from the sale of United States export property and 95 percent of the assets are invested in the export sales business.

We have, in essence, viewed the DISC as a partner with United States producers exporting to foreign markets. Therefore, a principal provision of the proposal permits a DISC to invest its accumulated export income by way of loans to domestic producers, whether or not related, to finance the producer's export related assets. Thus, if a producer exported 20 percent of his production, the producer would be entitled to have DISC loans, outstanding at any time, equal to 20 percent of the producer's assets.

Present rules for pricing between related companies represent substantial problems for taxpayers and the Internal Revenue Service in the administration of the tax laws and are far harsher than those enforced by many foreign countries. In formulating our DISC proposal we have contemplated that a substantial volume of sales will occur between manufacturing companies and related DISC's. In order to deal with these problems the proposal contemplates that transfer pricing, used to determine foreign source export income, will be accepted where the result allocates income on export sales to the DISC up to 4 percent of qualified export receipts, plus 10 percent of the DISC's export promotion expenses; or 50 percent of the combined taxable income of the DISC and a related supplier, plus 10 percent of the export promotion expenses; whichever is higher. Similar rules would be prescribed in the case of commission and rental arrangements.

In order to insure that ordinary income is not converted into capital gains, any gain on the sale of DISC stock would be treated as ordinary income to the extent of the accumulated DISC income. Similarly, the stepped-up basis of DISC stock on death of a shareholder will be reduced by the amount of accumulated DISC income.

While the provisions of the DISC Bill are not identical to the original proposals of the Administration, we give our full support to these provisions. Some minor technical problems have been suggested. We have discussed this in general with the Staff of the Joint Committee on Internal Revenue Taxation and it was agreed that we will give immediate consideration to these problems and to developing any technical amendments which may be warranted.

We therefore urge that this Committee give its approval to the DISC Bill.

Department of the TREASURY

HINGTON, D.C. 20220 TELEPHONE W04-2041

NEWS

FOR RELEASE ON DELIVERY

STATEMENT OF THE HONORABLE EDWIN S. COHEN
ASSISTANT SECRETARY FOR TAX POLICY
BEFORE THE
SENATE FINANCE COMMITTEE
ON THE TREASURY'S
DOMESTIC INTERNATIONAL SALES CORPORATION PROPOSAL
10:00 a.m. (EDT), OCTOBER 9, 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 and to urge its approval by the Committee. We make this recommendation because the U. S. tax system presently results in an income tax disadvantage to U.S. export sales as contrasted with foreign production by subsidiaries of U.S. companies, or by 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.

The DISC proposal is now before the Committee in the form of Title IV of amendments No. 925 and 1009 to H. R. 17550. The House Ways and Means Committee has reviewed this proposal in detail and reported it to the House as Title IV of H.R. 18970. All of these provisions are identical and I will simply refer to them as the DISC Bill.

We strongly support the provisions of the DISC Bill which recognize the importance of a change in the income tax rules applicable to U. S. exports.

While income tax factors are important, we recognize 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 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, we would question whether 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 also frequently able to use the foreign tax credit, either with or without minimum distribution elections, to reduce, even after distribution, their U.S. tax liability on export earnings. To the extent that this deferral and reduction are being achieved under present law, the tax deferral effect of the DISC proposal would not involve a revenue loss through a postponed receipt. The DISC would work in favor of companies without existing large foreign structures and without extensive foreign tax credits.

Accordingly, the DISC will provide equivalent opportunities for tax deferral for foreign source income arising 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 other 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 as they have been incorporated in the DISC Bill.

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 or is invested in qualified assets of the DISC, and thus is not distributed to the DISC's shareholders. Qualified assets would include loans to U. S. producers, including the DISC'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.

A DISC could sell the products of any domestic producer (purchased from, or sold on behalf of, the producer or an unrelated DISC) and could sell them to any foreign purchaser for a foreign destination, whether or not related.

Although some complexity is inherent in integrating the DISC proposal with the existing provisions of the Internal Revenue Code, the DISC Bill is intended to simplify tax concepts applicable to export activity to the maximum degree possible. For example, a destination test for export sales is substituted to reduce the complexities of the present passage of title test.

2. Qualification as a DISC.

The qualification requirements are that a DISC must be a domestic corporation, must have 95 percent of its receipts in the form of qualified export receipts, must have 95 percent of its assets in the form of qualified assets, must have only one class of stock and a minimum capitalization of $2,500, and must have made an election to be treated as a DISC.

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 qualified export assets. 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 Eximbank obligations or producers loans (as hereinafter described). To prevent inadvertent disqualifications under either of these tests, the DISC Bill provides 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 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 related and subsidiary to its sales or leases;

-- interest on obligations which are qualified export assets;

-- dividends from foreign sales subsidiaries engaged in marketing U. S. exports;

-- dividends from less than 10% equity investments in unrelated foreign corporations made in furtherance of export sales;

-- gains on the sale of qualified export assets;

-- receipts derived in connection with the performance of managerial services in furtherance of the production of qualified export receipts; and

-- receipts with respect to engineering or architectural services for construction projects located (or proposed for location) abroad.

Qualified export assets include:

- -- obligations of export customers;
- -- export property held for sale or lease;
- -- other working capital used in the DISC's sales or commission business;
- -- facilities primarily for the sale, lease, rental, storage, handling, transportation, packaging, assembly, or servicing of export property;
- -- assets of foreign sales branches handling U. S. exports;
- -- obligations issued, guaranteed, or insured by the Export-Import Bank and certain similar paper;
- -- 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; and
- -- temporary deposits in the United States with persons carrying on the banking business.

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 any qualified foreign export sales 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 accumulated export income would be treated as foreign source income. 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. 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. Allocable DISC Profits.

Where a DISC sells on behalf of a related person, the deferral of income tax on exports extends only to that portion of profits considered to be export sales (or rental) income. The portion of profit considered as manufacturing or domestic profit will continue to be taxed currently as under present law. Thus, the allocable intercompany pricing rules applicable under present law to transactions between related persons may be used to determine the export profit and the manufacturing profit. This can be a complicated and uncertain process in some cases and actual or potential disputes can be a deterrent to export activity. Therefore, the DISC rules also employ safe haven guidelines that may be elected where a DISC exports on behalf of a related company, permitting the DISC to retain as tax deferred export income the higher of either:

A. Up to four percent of its sales plus 10 percent of the "export promotion expenses" incurred by it; or

B. Fifty 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.

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. supplier and in having U. S. exporters subject to the same types of rules as their foreign competitors.

5. Producer's Loans

As stated previously, a DISC is to be permitted to loan its tax deferred profits to its parent manufacturing company (or any other U. S. export producer), as long as the cumulative amount loaned to any one borrower does not exceed the amount of the borrower's assets considered as being related to its export sales. This in essence is the same proportion of the borrower's assets that its export sales are of its total sales. These loans--termed "producer's loans"--are to constitute qualified export assets of a DISC and the interest arising on the loans is to represent a qualified export receipt of a DISC. However, the interest on such loans will not be tax deferred income of the DISC. Where such interest is not distributed annually, it will be deemed to have been received by the shareholders annually.

For a loan of a DISC's tax deferred profits to constitute a producer's loan, the loan must be made to a borrower who is engaged in the manufacturing, production, growing, or extraction of export property in the United States and at the time the loan is made it must be designated as a producer's loan. The loan must be evidenced by a note (or some other evidence of indebtedness) and have a stated maturity of not more than 15 years. To qualify as a producer's loan, a loan must be made out of the tax deferred profits--the accumulated DISC income. A loan is to be considered as made out of accumulated DISC income if at the beginning of the month in which the loan is made, the amount of the loan, when added to the unpaid balance of all other producer's loans previously made by the DISC, does not exceed the DISC's accumulated DISC income.

The limitation imposed on the amount of loans which a borrower may receive during a taxable year of the borrower is to be determined by applying the percentage which the borrower's qualified export receipts arising from its sale of export property during the three prior taxable years is of its aggregate gross receipts from the sale of inventory property during that period, to the total of the borrower's assets taken into account for this purpose. There are three categories of a borrower's assets which are taken into account in determining this limitation for a year: (1) the amount of the borrower's investment in plant, machinery, equipment, and supporting production facilities in the

United States as of the beginning of its taxable year; (2) the amount of the borrower's inventory at the beginning of the taxable year; and (3) the aggregate of the borrower's research and experimental expenditures in the United States during all preceding years of the borrower which began after 1970.

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.

At maturity, any loan can 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 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 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:

-- 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, and at least 70 percent of its assets in the form of qualified assets, 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 within such period.

Delayed Deficiency Distributions. A distribution 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 was due to reasonable cause.

8. Disqualification of DISC, Liquidation, or Sale of Stock.

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 consecutive years the DISC was qualified immediately prior to 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.

9. Export Property.

The type of property which is considered export property for a DISC is property which--

A. has been manufactured, produced, grown or extracted in the United States by someone other than a DISC;

B. is held by the DISC primarily for sale, lease, or rental in the ordinary course of business for use, consumption or disposition outside the United States, or which is held by the DISC for sale, lease or rental to another DISC for such a purpose; and

C. not more than 50 percent of the fair market value of which is attributable to imported articles.

10. 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. The DISC Bill presently provides that the little used foreign Export Trade Corporation provisions of Section 970 of the Internal Revenue Code will be phased out as the DISC provisions become fully effective.

11. Phase-in.

Under the DISC Bill, the deferral of DISC income will be "phased in" over 3 years, beginning in 1971. Fifty percent of the allocable DISC income will be deferred from current taxation in 1971; 75 percent in 1972 and 1973; and 100 percent beginning on January 1, 1974.

* * * *

This concludes our description. A more detailed explanation is found in the House Ways and Means Committee Report to accompany H. R. 18970.

While the provisions of the DISC Bill are not identical to the original proposals of the Administration, we give our full support to these provisions. Some minor technical problems have been suggested. We have discussed this in general with the Staff of the Joint Committee on Internal Revenue Taxation and it was agreed that we will give immediate consideration to these problems and to developing any technical amendments which may be warranted.

We therefore urge that this Committee give its approval to the DISC Bill.

Department of the TREASURY

HINGTON, D.C. 20220   TELEPHONE W04-2041

NEWS

FOR RELEASE ON DELIVERY

STATEMENT BY THE HONORABLE PAUL A. VOLCKER
UNDER SECRETARY OF THE TREASURY FOR MONETARY AFFAIRS
BEFORE THE SENATE FINANCE COMMITTEE
ON TRADE LEGISLATION
AT 10:00 AM (EDT), FRIDAY, OCTOBER 9, 1970

I welcome this opportunity to testify on the trade legislation before the Committee. Last Spring, the Administration made several proposals to the Congress on trade matters. Those proposals were designed to arm the United States with the essential tools it needs to maintain forward momentum toward reducing trade barriers and maintaining the expansion of international trade and investment under fair and competitive conditions. At the same time, they would, I believe, protect the legitimate interests of American business and labor.

As you know, in view of the inability thus far to achieve voluntary restraints on textile imports, the Administration also supports the addition to its proposals of certain provisions relating to quotas on those articles. You are also aware that in other important respects the bill that emerged from the House Ways and Means Committee (H.R. 18970) differs significantly from the proposals of the

Administration. I share the deep reservations already expressed by Ambassador Gilbert as to certain provisions of the House bill, which I believe are contrary to the national interest.

I will, however, devote my attention principally to one major provision of H.R. 18970 which originated with the Administration. I refer to Title IV that would permit the establishment of a new type of domestic corporation to be known as the Domestic International Sales Corporation, or DISC.

The effect of this provision would be to remove impediments to exports from the United States that exist in our present system of corporate taxation. This would be accomplished by making available to our exporters tax treatment more comparable to that available to exporters in many foreign countries and to the treatment accorded subsidiaries of U.S. companies operating overseas. This objective would be achieved, as Assistant Secretary Cohen will further explain, by permitting the deferral, within carefully defined limits, of corporate income tax on profits arising from exports, so long as those profits are employed in support of export efforts.

The basic purpose of this proposal is to remove one obstacle to a more effective competitive effort by our exporters in world markets. It thus will provide important support to the balance of payments and to the external financial position of the United States.

We believe the salutary effects of this legislation will extend beyond the immediately identifiable impact on the profitability of exporting implicit in the removal of an unwarranted drag of taxation. In combination with our parallel efforts to improve export facilities, it will, I am convinced, help direct the attention of American industry -- particularly smaller and medium-sized firms -- to the opportunities available in foreign markets. It should induce fresh corporate planning and marketing efforts to develop those markets, and its impact will be reflected in such basic corporate decisions as plant location.

The concept and basic provisions of the proposal reflect a thorough review of our tax structure from the standpoint of its impact on our export effort. That review included examination of the tax treatment of exports by other countries, as well as the tax treatment under U. S. law of export income as compared to other foreign source income.

We concluded from this analysis that the U. S. tax structure does, in fact, inadvertently contribute to an attitude among many American producers that export markets are not worth a concerted and aggressive effort over a period of years. Indeed, in certain respects, our tax system actually gives relative benefits to manufacturing abroad rather than in the United States.

The proposal before the Committee would remedy these defects by recognizing that export income of a U.S. corporation is partly foreign source income, just as income from foreign subsidiaries is foreign source income. The same principle is incorporated in the laws and practices of other countries. Where this sound tax philosophy has heretofore gone astray in the operation of our own tax system is that the tax deferral of retained earnings, which is generally available on foreign manufacturing income, can be obtained on export income only through creating a foreign-domiciled sales subsidiary. Many companies, particularly those without extensive foreign operations, find this awkward and impractical. Why should our laws require a foreign domicile for export income to qualify? Foreign source income can appropriately be determined by the destination of the goods rather than the domicile of the corporate vehicle through which the sale has passed. We believe our proposed rules that would accomplish this purpose are consistent with international practice and obligations.

I believe the basic need for this legislation to correct a long standing anomaly in tax treatment of exports is apparent from any considered analysis of our balance of payments and international financial position. We have been coping with a severe balance of payments problem for a lengthy period. The net outflow of dollars into foreign central banks and treasuries has fluctuated considerably in recent years in response to transient factors; the hard fact is that our underlying position has remained unsatisfactory.

In the latter half of the 1960's, the most serious element in the problem was that our traditionally large surplus on trade and on all current account transactions dwindled steadily. I believe we see the beginnings of a reversal of that trend this year. But, realistically, we must recognize that this improvement has been exaggerated by the temporary effects of an economic slow-down here and an inflationary boom abroad. Clearly, our current account surplus is still inadequate to support fully our investment activity abroad and our international obligations. Rebuilding that surplus must be a prime policy objective if we are to protect the stability of the dollar and discharge our international responsibilities effectively.

I do not believe we have the option of seeking that necessary improvement by turning inward with restrictive measures. It is not just a matter of economic philosophy or principle, important as freer trade is to the health of the world economy, standards of living at home and abroad, and effective competition. The harsh fact is that restrictions considered unfair and unacceptable to our trading partners will impair the atmosphere of cooperation built up so carefully in many of our international economic relationships and even invite retaliation. Instead of benefiting our trade position, spreading restrictions would damage our prospects for regaining a substantial surplus through competitive processes. I believe, too, at this time particularly, we must recognize that the flow of imports is one of the most effective possible checks to domestic inflationary pressures. And in the long run, we cannot expect to maintain a competitive industry behind import barriers.

The DISC proposal looks outward. It is designed to enable our industry to compete fairly but more effectively in world markets, building on the solid and essential base of a restoration of greater price stability. Intensive contacts with industry support our own conviction that the impact on the level of exports will be appreciable over a period of time. Admittedly, concrete estimates are difficult. We have, therefore, prepared estimates based on differing assumptions -- one set we feel to be conservative and the other set reflecting more favorable assumptions emerging from some of our industrial consultations. Taking the more conservative estimates, we anticipate the DISC would generate, over the four to five years following its initiation, almost $1-1/2 billion more exports per year than would otherwise take place. More optimistic assumptions suggest that, over the same period of time, the impact could run to $2-1/2 billion. In either case, further gains should accrue in later years.

At the same time, we recognize that these gains will entail a definite cost in revenues. In recognition of this cost and the heavy current pressures on the budgetary position, the bill contemplates a gradual phasing-in period extending until 1974. With this phasing in, we anticipate that the revenue impact during the remainder of fiscal year 1971 -- assuming an effective date of January 1st -- would be less than $75 million. By the fifth year, our estimates indicate the direct revenue cost could be expected to rise progressively to approximately $600 million.

Significant taxable distributions would commence after the first few years, tending to limit further increases in costs. I would also emphasize that these are estimates of the direct revenue impact. They do not take into account the long-range stimulative effect of this proposal -- in the form of additional jobs, additional investment, and additional exports. These long-range benefits cannot be isolated statistically, but certainly they will exist. They will potentially offset materially the direct revenue costs of the proposal.

In conclusion, I strongly urge the Committee to support this aspect of the Administration's trade legislation. The need is urgent. We can no longer afford the luxury of maintaining provisions in our tax system that tend to discriminate against exports in favor of foreign investment. Our trade position and our balance of payments position urgently need improvement. I firmly believe that the DISC proposal is in the interests of a strong and healthy expansion of our economy, consistent with maintaining a strong external financial position.

oOo

Department of the TREASURY NEWS

ASHINGTON, D.C. 20220 TELEPHONE WO4-2041

FOR IMMEDIATE RELEASE October 9, 1970

TREASURY HONORS EMPLOYEES AT ANNUAL AWARDS CEREMONY

In its Seventh Annual Awards Ceremony, the Treasury Department has honored 91 employees for outstanding service and significant operational contributions.

In the fiscal year ended last June 30, Treasury employees were recognized for adopted suggestions and innovative achievements which yielded almost 1.7 million dollars of first year benefits.

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

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

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

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

-- 31 employees and 2 organizational units for excellence in furthering special Government-wide programs.

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

(MORE)

ın addition, the awards ceremony honored 11 long-time career employees of whom 9 have served more than 40 years and two more than 45 years.

The highest cash award, $5,000, was received jointly by Morris V. Boley and Philip B. Neisser of the Bureau of the Mint for their invention of the new composite metal strip . to replace coin silver, and assignment of their rights and interests to the United States Government.

The awards were presented by the Under Secretary of the Treasury Charls E. Walker, who also honored several Treasury bureaus. The Bureau of Engraving and Printing was cited for outstanding participation in the performance phase of Treasury Department's Incentive Awards Program. The Bureau of Customs was recognized for outstanding achievement in its suggestions program. The Bureau of Accounts was singled out for significant accomplishment in cost reduction and management improvement program achieving savings which more than doubled their Bureau's annual goal.

In addition, the Bureau of Engraving and Printing, the Bureau of the Mint, and the Internal Revenue Service were recognized for accomplishments in the safety programs.

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

oOo

Attachments

EMPLOYEE SUGGESTIONS AND SERVICES

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

JAIME ARBONA, Customs Inspector, Bureau of Customs, Baltimore, Md.

For bringing a difficult narcotics case to a successful conclusion through his knowledge of the language and customs of Latin Americans. Special Achievement Award—$500.

MORRIS J. ASAMI, Import Specialist, Bureau of Customs, Los Angeles, Calif.

For supervising and compiling a tabulation of all importations of Japanese plywood made through the ports of Seattle, Portland, Houston, San Francisco, and Los Angeles. Special Achievement Award—$500.

ROGER H. BURR, Revenue Officer, Los Angeles District, Internal Revenue Service, Los Angeles, Calif.

For developing training aids which significantly improved classroom instruction during Revenue Officer training classes held at the Van Nuys Training Center. Special Service Award—$725.

PETER CAPRIOLE, Tax Examiner, North Atlantic Service Center, Internal Revenue Service, Andover, Mass.

For suggesting new procedures for sending Tax Deposit Forms 503 to new corporate entities. Estimated savings—$24,835. Suggestion Award—$825.

RONALD D. DANIELSON, Assistant Communications Officer, U.S. Secret Service

For developing, on his own time, a radio dialer system for use in official cars which allows agent personnel greater and freer use of radio equipment, including telephonic calls to any number directly from an automobile. Special Achievement Award—$500.

JOSEPH E. ENDRES, Formerly Consultant, Office of the Director, Bureau of the Mint

For developing and implementing a system for the mail order retailing of 2,600,000 proof coin sets. Special Achievement Award—$800.

LOUIS D. GERSHENSON, Senior Regional Analyst (Audit), Mid-Atlantic Regional Office, Internal Revenue Service, Philadelphia, Pa.

For suggesting elimination of staff review of unagreed office audit cases which involved approximately 300,000 case files. Suggestion Award—$600.

JULIUS P. HAJDU, Machining Lead Foreman, United States Mint, Denver, Colo.

For designing tooling for the manufacture of die holders and collars at the Denver Mint which resulted in increased production and a high quality finished product. Estimated savings—$14,227. Suggestion Award—$610

OLIVER J. LARSON, Tax Examiner, Western Service Center, Internal Revenue Service, Ogden, Utah

For suggesting a procedural change where the selection of potential audit cases would take place prior to preparation of the audit examination record assembly, thus eliminating approximately 300,000 unnecessary audit assemblies. Estimated savings—$20,327. Suggestion Award—$755

Lynn C. Muirbrook, Supervisory Cash Assistant, Examination Division, Western Service Center, Internal Revenue Service, Ogden, Utah

For suggesting use of a hydraulic paper cutter to detach wage schedules from Forms 941, 942, and 943 in lieu of manual detachment. Estimated savings—$9,000. Suggestion Award—$500

Ruby K. Peterson (Retired), Former Senior Attorney, Office of the Regional Counsel, Southeast Region, Internal Revenue Service, Jacksonville, Fla.

For the highly exemplary manner in which she discharged her legal duties while occupying a number of very responsible positions, thereby making significant contributions to the efficient operation of the Chief Counsel's office. Superior Work Performance Award—$500

Allan Sturges, Chief, Data Systems Division, U.S. Secret Service

For developing an Automatic Data Processing System geared to meet the unique needs of the Service through innovations in intelligence analysis, information retrieval, and improved analytical and forecast procedures of a highly sophisticated nature. Special Achievement Award—$500.

James C. Wagner, Jr., Electrolytic Platemaker, Office of Engraving, Bureau of Engraving and Printing

For initiative and ingenuity in proposing a change in the method of making plates for printing presses which eliminated two processing steps and made the plates available for use five days earlier. Estimated savings—$8,650. Suggestion Award—$635.

Calvin H. White, Supervisory Tax Examiner, Central Service Center, Internal Revenue Service, Covington, Ky.

For suggesting that the taxpayer's name on Form 3354, Assessment Adjustment Document, be eliminated in favor of a four-letter name control to speed preparation of this document. Estimated savings—$15,167. Suggestion Award—$630

Morris V. Bolby, Consultant

Philip B. Neisser, Technical Consultant

Office of the Director, Bureau of the Mint

For inventing a new composite metal strip to replace coin silver in U.S. coinage and assigning to the United States the entire right, title, and interest in and to the invention. Special Achievement Award—$5,000

Charles J. Wilson, Supervisory Customs Inspector

Eugene B. Michael, (Retired) Formerly Customs Inspector

Bureau of Customs, Buffalo District, Boston Region

For recommending adoption of the Provisional Release Invoice Number "PRIN" system resulting in significant savings and improved service to the public. Estimated savings—$68,879. Suggestion Award—$1,045

Horace J. Gibbs, Special Agent in Charge, U.S. Secret Service Field Office, Baltimore, Md.

John M. Cozza, Special Agent, Special Investigations and Security Division, Washington, D.C.

For conducting a well-coordinated investigation culminating in numerous arrests and the seizure of large sums in counterfeit notes. Special Achievement Award—$1,000

Charles J. Wilson, Supervisory Customs Inspector

John B. Cookfair, Customs Inspector, Bureau of Customs, Buffalo District, Boston Region

For recommending a simplification in processing shippers' export declarations at Customs stations, resulting in significant assistance to shippers and savings to the Government. Estimated savings—$25,882. Suggestion Award—$830.

Donald E. White, Assistant District Director, Baltimore, Md.

David C. Goebel, Operations Officer, New Orleans, La.

Donald L. Eide, Assistant District Director, San Francisco, Calif.

Donald L. Brownell, Supervisory Customs Inspector, Los Angeles, Calif.,

Bureau of Customs

For significant contributions in connection with the Preclearance Operation of Military Personnel from Vietnam. Special Achievement Award—$1300

AWARDS TO SUPERVISORS

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

ELEANOR ANDERSON, Supervisor, Diversified Payments Branch, Chicago Disbursing Center, Bureau of Accounts

For successfully training and developing employees and motivating them to achieve high quality production and meet rigorous deadlines under adverse conditions.

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

For superior leadership in promoting strong employee interest and active participation in the Incentive Awards Program, resulting in increased efficiency and reduction of safety hazards.

ORION L. BIRDSALL, Jr., Chief, Data Processing Training Branch, Internal Revenue Service

For implementing a training process and developing a highly effective staff that has produced a data processing training organization with greater returns for dollars invested.

CHESTER V. CLAUSEN, Manager, Distribution Center, Savings Bonds Division, Chicago, Ill.

For accomplishing assignments with almost impossible deadlines while maintaining the respect and esteem of his staff and for using the full scope of his abilities to further the objectives of the Savings Bonds Program.

Hester A. Fisher, Supervisor, Adjustment Section, Reconciliation Branch, Check Accounting Division, Office of the Treasurer of the U.S.

For selfless devotion to duty and constant efforts to achieve perfection in her own work and in the work of those under her supervision.

William H. Ford, Foreman, Ink Production Unit, Technical Services Division, Bureau of Engraving and Printing

For effectively encouraging employee participation in the Incentive Awards Program, resulting in the elimination of safety hazards and increased efficiency.

Evelyn B. Freeman, Supervisor, Special Payments Section, Birmingham Disbursing Center, Bureau of Accounts

For successfully developing a high level of employee cooperation and efficiency through instruction and counseling and giving recognition to employee performance through the Incentive Awards Program.

Melvin Gabourel, Chief, Whole Note Branch, Cash Division, Office of the Treasurer of the U.S.

For inspiring employees toward greater productivity, tighter controls, and higher morale through outstanding leadership and personal example.

Louis J. Giza, Supervisory Inspector, Inspection and Control Section, Air Transportation Division, Bureau of Customs, Chicago, Ill.

For superior leadership and diligence and instilling in his employees a keen awareness of their enforcement responsibilities, resulting in numerous seizures of narcotics and other contraband items.

Walter A. Porteous, Supervisory Auditor (Assistant Comptroller (Chief Auditor)), Division of Financial Management, Bureau of Accounts

For exceptional managerial ability and judgment in supervising and coordinating his professional staff to process a substantially greater workload and achieve increased efficiency.

Harvey E. Roenicke, Chief, Accounts Section, Division of Public Debt Accounts and Audit, Bureau of the Public Debt

For leadership and motivation of his personnel to perform at maximum efficiency during a period of transition with unusually heavy workloads.

William L. Watson, Foreman, Carpentry, Painting and Masonry Shop, Construction and Maintenance Division, Bureau of Engraving and Printing

For superior leadership in encouraging employee interest and active participation in the Incentive Awards Program resulting in increased efficiency and improved work operations.

SPECIAL AWARDS FOR EXCELLENCE IN FURTHERING SPECIAL GOVERNMENT-WIDE PROGRAMS

Recognition by the Secretary for outstanding contributions to the furtherance of a number of Government-wide programs in which the President has asked for special attention and extra effort from the executive branch of the Government.

MYLES J. AMBROSE, Commissioner of Customs

For exceptional contributions to improving the effectiveness of Treasury operations. Recipient of Presidential Management Improvement Certificate.

WILLIAM E. BOARMAN, Deputy Assistant Regional Commissioner, Bureau of Customs, Houston, Tex.

For leadership in implementing an Equal Employment Opportunity Program which has successfully identified and supplied employees' development needs and resulted in significantly increased opportunities for minority groups.

FRED R. BOYETT, Regional Commissioner, Bureau of Customs, Chicago, Ill.

For furthering the objectives of the program for improved service to the public by personal leadership and by creating a spirit of cooperation between Customs employees and the traveling and importing public.

ROY C. CAHOON, Assistant to the Director of the Mint

For outstanding leadership in promoting effective communication and service to the public in his official capacity as Mint liaison with the Congress, the press, and officials of the Federal Reserve System.

Irene F. Carpenter, Office Manager, Savings Bonds Division, Honolulu, Hawaii

For contributing to the effectiveness of the Savings Bonds Program throughout the State of Hawaii by the manner in which she provides information and services to the general public, Government agencies and Savings Bonds volunteers.

Eugenia V. Ciampa, Secretary, Office of the Commissioner, Bureau of the Public Debt

For outstanding ability in providing excellent service to the public through direct and responsive communication.

Bethel G. Cook, Assistant Chief, Securities Division, Office of the Treasurer of the United States.

For exemplary leadership in developing and maintaining good communication with and service to the public concerning transactions in Government securities.

Lester E. Cullen, Superintendent, Plant Services Division, Bureau of Engraving and Printing.

For outstanding leadership in planning a continuing program for placement, on-the-job training, and effective utilization of the abilities of disadvantaged youths.

Karen L. Disque, Secretary, Office of Public Affairs, U.S. Savings Bonds Division

For outstanding ability in handling all types of public, Congressional, Office of the Secretary, and White House inquiries and requests related to Savings Bonds information.

Edward E. Dougherty, Chief, Protective Programs Branch, Facilities Management Division, Internal Revenue Service

For developing national guidelines for the protection of employees and offices in emergency situations, thus bringing great credit to the Internal Revenue Service and the Department.

Arnold S. Dreyer, Director, Midwest Service Center, Internal Revenue Service, Kansas City, Mo.

For outstanding contributions to equal employment opportunity in government through the excellence of his leadership, involvement, commitment, skill, imagination and perseverance on behalf of the Kansas City Federal Community and the Midwest Service Center.

Richard L. Edelen, Public Information Officer, Baltimore District Office, Internal Revenue Service, Baltimore, Md.

For outstanding contributions, unusual competence and dedicated personal leadership in improving communication and service to the public and enhancing the image of the Internal Revenue Service.

Donald G. Elsberry, Director, Systems Division, Internal Revenue Service

For exceptional contributions to improving the effectiveness of Treasury operations. Recipient of Presidential Management Improvement Certificate.

Dolores Fantone, Administrative Assistant, Office of Security and Audit, Bureau of Engraving and Printing

For outstanding performance in working behind the scenes to coordinate the myriad details involved in preparing and presenting the many numismatic and philatelic exhibits the Bureau presents as a service to the public.

Leonard Grant, Supervisory Import Specialist, Bureau of Customs, New York, N.Y.

For designing, structuring and maintaining a permanent EEO Program for his region that may well be a prototype of future programs and which demanded many hours of off-duty involvement.

Quintin W. Guerin, Chief, Regional Training Branch, Midwest Region, Internal Revenue Service, Chicago, Ill.

For his innovative and dynamic approaches to training in the field of human relations and equal employment.

Chester J. Harucki, Superintendent, Postage Stamp Division, Bureau of Engraving and Printing

For superior leadership in furthering the Safety Program in the Postage Stamp Division of the Bureau of Engraving and Printing.

Douglas C. Lewis, Chief, Mail and Files Branch, Administrative Office, Office of the Treasurer of the U.S.

For special, interest in the potential of disadvantaged and handicapped employees under his supervision and the development of their productivity, self-reliance, and pride of workmanship.

Electra P. Malone, Regional Office, Southwest Region, Internal Revenue Service, Dallas, Tex.

For outstanding contributions to equal employment in government through the excellence of her leadership, involvement, commitment, skill, imagination and perseverance on behalf of the Internal Revenue Service.

Americo S. Miconi, Assistant Accounting Officer, Division of Financial Management, Bureau of Accounts

For excellence in improving communications and services to the public through the expeditious handling of claims and awards.

Frances R. B. Peterson, Placement and Employee Management Relations Specialist, Personnel Office, Bureau of the Public Debt

For unusual excellence in implementing special employment programs, including those for the employment of the disadvantaged and the handicapped

Lester W. Plumly, Chief Disbursing Officer, Bureau of Accounts

For exceptional contributions to improving the effectiveness of Treasury operations. Recipient of Presidential Management Improvement Award.

Richard E. Redmond, Equal Employment Opportunity Counselor, Office of Industrial Relations, Bureau of Engraving and Printing

For outstanding effectiveness in furthering the objectives of the Equal Employment Opportunity Program in the Bureau.

Freida J. Rittenhouse, Technical Aide, Office of the Commissioner, Bureau of the Public Debt

For outstanding ability in providing excellent service to the public through direct and responsive communication.

Robert K. Scroggs, Personnel Management Specialist, Personnel Administration Staff, Office of the Commissioner, Bureau of Accounts

For outstanding leadership in furthering the Bureau's programs for the disadvantaged and the handicapped.

James H. Stover, Regional Commissioner of Customs, Miami, Fla.

For continued excellence in furthering cost reduction and management improvement as evidenced by exceptionally high regional savings and for vigorous support of Presidential emphasis programs, such as employment of Neighborhood Youth Corps members.

Geraldine T. Tolker, Chief, Training and Taxpayer Education Branch, Administrative Division, Internal Revenue Service, Baltimore, Md.

For significant contributions to improved communication and service to the public through extensive involvement and training leadership in the community.

Bernice P. Wildenborg, Securities Examiner, Examiner-Reviewer, Division of Loans and Currency, Bureau of the Public Debt, Chicago, Ill.

For excellence in improving communications and services to the public by her effectiveness in the preparation of correspondence and the outstanding quality of her writing.

Claude M. Dellinger, Jr., Foreman of Plate Printers, Plate Printing Division

James G. Alls, Machinist, Construction and Maintenance Division

Leonard E. Buckley, Designer, Office of Engraving Bureau of Engraving and Printing,

For a noteworthy contribution in making available to the public a beautiful and inspiring patriotic print—"The U.S. Flag and Allegiance."

Management Analysis Division, Office of Management and Organization, Office of the Secretary

For exceptional contributions to improving the effectiveness of Treasury operations. Recipient of Presidential Management Improvement Certificate.

Bureau Employee Committees for Equal Employment Opportunity, Bureau of Engraving and Printing

For outstanding effectiveness in furthering the objectives of the Equal Employment Opportunity Program in the Bureau of Engraving and Printing.

THE SECRETARY'S ANNUAL AWARDS

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

SECRETARY'S AWARD FOR INCENTIVE AWARDS PROGRAM (PERFORMANCE)

Bureau of Engraving and Printing

For the best overall results in effectively recognizing employee performance which significantly exceeded normal job requirements. Over 20 percent of all personnel of the Bureau of Engraving and Printing received cash awards or high quality pay increases and tangible benefits from services recognized averaged over $3,000 per 100 employees.

SECRETARY'S AWARD FOR INCENTIVE AWARDS PROGRAM (SUGGESTIONS)

Bureau of Customs

For the best overall results in the suggestion program during fiscal year 1970. For each 100 employees on its rolls, the Bureau had over three adopted suggestions and estimated savings of $2,433.

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

Bureau of Accounts

For maintaining a consistently active operations review program during fiscal year 1970 which produced refinements in procedures resulting in increased individual employee productivity and significant innovations in equipment management. Management improvement savings more than doubled the amount of the Bureau's annual goal.

SECRETARY'S AWARDS FOR SAFETY

Bureau of Engraving and Printing

For showing the greatest reduction in the frequency of disabling injuries over the preceding 3-year average for bureaus with over 1,800 personnel. The Bureau reduced its rate to 6.3 per million man-hours worked, a reduction of 20.3 percent of the previous 3-year average.

Bureau of the Mint

For showing the greatest reduction in the frequency of disabling injuries over the preceding 3-year average for bureaus with under.1,800 personnel. The Bureau reduced its rate to 7.0 injuries per million man-hours worked, a reduction of 32 percent of the previous 3-year average.

Internal Revenue Service

A Special Safety Award presented for sustained outstanding performance in its Accident Prevention Program for Employees and the Public.

CAREER SERVICE RECOGNITION

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

50 Years of Federal Service

None

45 Years of Federal Service

Ernest L. Elsberry (retired)	Internal Revenue Service
Anne M. Mosher	Internal Revenue Service

40 Years of Federal Service

Thelma A. Cressy	Internal Revenue Service
Ralph J. Hayes	Office of the Secretary
Elmer W. Honaback	Internal Revenue Service
Mary Little	Internal Revenue Service
Irene McAllister (retired)	Internal Revenue Service
Florence H. Penland	Bureau of Engraving & Printing
Herbert A. Sassi (retired)	Internal Revenue Service
Jerome E. Schleeper (retired)	Office of the Secretary
Edgar D. Shanklin	Internal Revenue Service

MERITORIOUS SERVICE AWARD

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

Stanley D. Allen, Chief, Management Analysis Division, Office of Organization and Management, Office of the Secretary

For substantial contributions to the increased effectiveness of management in the Department and for consistently carrying out difficult and delicate assignments with skill, diplomacy, and dispatch.

Bernard J. Beary, Deputy Director of Personnel, Office of the Secretary

For noteworthy contributions to the effectiveness of the personnel management program of the Department, especially for his leadership in the areas of labor-management relations, occupational health, and education and counseling for retirement.

Francis M. Buscher (Retired), Formerly Chief, Management Services Branch, Division of Disbursement, Bureau of Accounts

For notable contributions to the development and improvement of Treasury's central disbursing operations.

Katherine Cleary, Staff Assistant, Retired Securities Division, Bureau of the Public Debt

For highly important contributions to the Bureau of the Public Debt and the Department in the field of servicing the public debt.

Garrett Demots (Retired), Formerly Deputy Assistant Commissioner (Data Processing), Internal Revenue Service

For significant contributions to the development and installation of the automatic data processing system in the Internal Revenue Service and an unusual ability to resolve complex technical and managerial problems.

Schubert J. Dyche, Financial Attaché in Tokyo, Office of the Assistant Secretary for International Affairs

For exceptional contributions to U.S. policy toward Japan through a deep understanding of the country and its people and for unusual foresight and skill in preparing economic studies.

Sebastian Fama, Director, Division of Government Financial Operations, Bureau of Accounts

For outstanding managerial achievements in maintaining the ongoing system of central accounts and financial reports coordinated with the special efforts needed to convert the system, Government-wide, to the accrual basis recommended by the President's Commission on Budget Concepts.

Marius Farioletti, (Retired), Formerly Director, Planning and Analysis Division, Internal Revenue Service

For outstanding contributions toward improving the efficiency and effectiveness of the tax system.

Nathan L. Fial, Market Director, Savings Bonds Division, New York, N.Y.

For outstanding performance in three vital areas of the Savings Bonds Program—payroll savings, relationships with the banking community, and the effective recruitment of volunteers.

John H. Grosvenor, Jr., (Retired), Formerly Assistant Chief Counsel and Associate Chief Counsel, Bureau of the Public Debt

For sound legal advice and skillful administrative ability which contributed substantially to the orderly and efficient conduct of public debt financing.

Richard M. Hahn, Associate Chief Counsel (Litigation), Office of the Chief Counsel, Internal Revenue Service

For exceptional legal and executive ability and unusual devotion to duty while serving as Acting Chief Counsel for an extended period of time during the year 1969.

Daniel I. Halperin, Formerly Deputy Tax Legislative Counsel, Office of the Secretary

For outstanding service in assisting in the development of comprehensive tax reform proposals which in large part were incorporated into the Tax Reform Act of 1969.

Leonard Lehman, Deputy Chief Counsel, Bureau of Customs

For exceptional skill and professional competence in carrying out the manifold responsibilities of his position and in particular the legislative program of the Bureau of Customs.

Charlotte T. Lloyd, Assistant General Counsel, Office of the Secretary

For sustained distinguished accomplishments, exceptional legal ability and superior craftsmanship, which constitute an outstanding example of the qualifications of a government attorney.

Frances Miller, Secretary to the Assistant Secretary for Administration, Office of the Secretary

For loyal and exemplary service in her present position and in her previous assignments to a number of officials at the Assistant Secretary level of both political Administrations.

Joseph F. Nugent, Deputy Superintendent, New York Assay Office, Bureau of the Mint, New York, N.Y.

For superior technical skill and administrative ability demonstrated throughout 40 years of service at the New York Assay Office.

Lorin E. Sibley, State Director, Savings Bonds Division, Topeka, Kans.

For outstanding contributions to the Savings Bonds Program, and especially for sustaining a highly motivated volunteer organization which has produced an enviable record of payroll savings accomplishment.

Harold M. Stephenson (Retired), Formerly Chief of the Division of Loans and Currency, Bureau of the Public Debt

For effective leadership resulting in a uniformly high level of service to the investing public and for achieving substantial savings in both money and personnel through his management improvement efforts.

Harry O. Swanson (Retired), Formerly Internal Revenue Service Representative, Ottawa, Canada

For outstanding dedication in the supervision, direction, and control of all phases of the operations of the Service in Canada.

Mary F. Trapnell (Retired), Formerly Staff Assistant to the Director, Collection Division, Internal Revenue Service

For major contributions to the fair and effective administration of the Federal tax system.

EXCEPTIONAL SERVICE AWARD

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

James A. Conlon, Director, Bureau of Engraving and Printing

For his dynamic management of the Bureau of Engraving and Printing and his 28-year career of distinguished service to the Department of the Treasury.

Ethel Hodel (Retired), Formerly Special Assistant to the Fiscal Assistant Secretary

For her exceptional performance over a period of many years in an influential role in the administration of the Department's financing operations.

Paul McDonald (Retired), Formerly Director of the Office of Administrative Services, Office of the Secretary

For outstanding leadership for over two decades of the Office of Administrative Services and for his contributions in several special programs of importance to the Treasury and the Government.

Harold T. Swartz, Assistant Commissioner (Technical), Internal Revenue Service.

For exceptionally outstanding contributions to the effective and efficient administration of our self-assessment system of taxation.

ALEXANDER HAMILTON AWARD

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

ARTEMUS E. WEATHERBEE, Assistant Secretary for Administration

For distinguished service under five successive Secretaries of the Treasury. An administrator of unusual competence, his accomplishments and record of advancement provide an example to those young men and women who aspire to serve their government in a business management career.

U.S. GOVERNMENT PRINTING OFFICE: 1970

Department of the TREASURY

ISHINGTON, D.C. 20220 TELEPHONE W04-2041

NEWS

412

FOR IMMEDIATE RELEASE October 9, 1970

TREASURY ANNOUNCES THREE WITHHOLDING OF APPRAISEMENT ACTIONS

Assistant Secretary of the Treasury Eugene T. Rossides announced today that the Bureau of Customs is instructing its field officers to withhold appraisement of the following items pending a determination as to whether this merchandise is being sold at less than fair value within the meaning of the Antidumping Act, 1921, as amended (19 U.S.C. 160 et seq.): ceramic wall tile from the United Kingdom; and two cases from Japan, previously stated as pending in Assistant Secretary Rossides' August 28th press conference: 1) sheet glass; 2) plate and float glass.

Under the Antidumping Act the Secretary of the Treasury is required to withhold appraisement whenever he has reasonable cause to believe or suspect that sales at less than fair value may be taking place.

Final Treasury decisions in these investigations will be made within three months. Appraisement will be withheld for a period not to exceed six months from the date of publication of the withholding of appraisement notices in the Federal Register.

Under the Antidumping Act, a determination of sales in the United States at less than fair value requires that the case be referred to the Tariff Commission, which would consider whether American industry was being injured. Both dumping margins and injury must be shown to justify a finding of dumping under the law.

During the period January 1968 through May 1970, imports of ceramic tile from the United Kingdom totaled approximately $10,900,000. 88 percent of this amount consisted of wall tile, and the remainder floor tile.

From January 1969 through April 1970, sheet glass valued at approximately $5,200,000 was exported to the United States from Japan. Exports of plate and float glass from Japan to the United States totaled approximately $9,250,000 during 1969.

K-508

oOo

Department of the TREASURY NEWS

HINGTON, D.C. 20220 TELEPHONE WO4-2041

FOR RELEASE ON DELIVERY

REMARKS OF THE HONORABLE EDWIN S. COHEN
ASSISTANT SECRETARY OF THE TREASURY FOR TAX POLICY
CONFERENCE ON
FOREIGN DIRECT INVESTMENT IN THE UNITED STATES
INSTITUTE FOR INTERNATIONAL AND FOREIGN TRADE LAW
GEORGETOWN UNIVERSITY
AT THE BROOKINGS INSTITUTION
WASHINGTON, D. C.
OCTOBER 13, 1970, 2:30 P.M. (EDT)

Tax Factors in Foreign Direct Investment in the United States

The United States tax system provides, I believe, a fair and reasonable climate in which foreign direct investment can thrive in our country on a basis consistent with the taxation of our domestically owned enterprises.

The Treasury welcomes foreign direct investment in the United States. In the development of tax policy, as reflected in legislation, regulation and administrative application, we are alert to avoid placing any undue tax burdens on such investment. Indeed, we have been active in eliminating rules which inadvertently may have acted as a deterrent.

The Foreign Investors Tax Act of 1966 changed a number of rules which foreign investors might have found troublesome. The principal change was the abandonment of the so-called "force of attraction" doctrine. Under the "force of attraction" doctrine, all income, including capital gains, from sources within the United States derived by a foreign taxpayer conducting business in the United States, or with a permanent establishment in the United States, was in effect attributed to that business even though it was not in fact connected with the business operations here. The investment income was consequently taxed as ordinary business income at the graduated individual rates or at the ordinary corporate rates or taxed at the special rates applicable to capital gains. The effect of this rule was to deny the benefits of the statutory exemption for capital gains, the fixed withholding rates established by statute or treaty, or treaty exemptions for such items as interest and royalties.

The Draft Income Tax Convention, published in 1963 by the Fiscal Committee of the Organization for Economic Cooperation and Development, as a model for tax treaties between its members, adopted the position that different types of income should be taxed on the basis of their actual relationship to the business activities of a foreign person in the host country. It provided that the appropriate tax treatment should be accorded to each category of income without regard to the fact that the taxpayer might simultaneously have other types of income within the host country.

Soon afterwards, a Presidential Task Force in the United States recommended that the tax laws of the United States be changed to adopt the "effectively connected" concept along the lines of the OECD Draft. That recommendation was implemented in the Foreign Investors Tax Act of 1966 with respect to dividends, interest, royalties, other "periodical income" and capital gains and has been fully reflected in our income tax treaties and treaty amendments negotiated since that time.

Our present rules for the taxation of foreign direct investment income are basically simple. In the typical case of a U. S. corporation, operating in the United States, which is owned by a foreign corporation or foreign individuals, the rules generally applicable can be summarized in a few paragraphs. I hope that this summary will prove useful in preliminary planning for those beyond our shores who are considering direct investment in the United States.

1. Corporate Tax Rate. The Federal corporate tax rate on the taxable income of the corporation is 48 percent on income in excess of $25,000. The Internal Revenue Code contains a surtax exemption under which the first $25,000

of income is subject to tax at 22 percent. When more than one corporation is owned by the same interests, only one surtax exemption will be available. This limitation to a single exemption for related corporations was imposed by the Tax Reform Act of 1969 and comes into operation gradually over a five year period, becoming fully effective in 1975.

2. Computation of Taxable Income. In computing taxable income, the following rules are of special interest:

a. In general, the U. S. income tax is a unitary tax under which all income other than capital gains from all sources is aggregated and taxed together at the applicable rates - in the case of corporations, 22 or 48 percent. All ordinary and necessary business expenses are deductible, regardless of where incurred. This includes payments to related parties, including salary payments to individual stockholders, as long as the amount is reasonable under an arm's-length standard. Entertainment expenses may be ordinary and necessary business expenses, subject to special conditions designed to prevent abuse.

b. The cost of capital assets can be deducted as depreciation over the useful life of the assets. The traditional method is the straight-line method under which an equal amount is deducted during each year of the useful life. Since 1946 and 1954, the United States has provided for accelerated depreciation under several different formulas. The formulas allowing the most rapid depreciation are now largely limited to machinery and equipment and residential buildings. Nonresidential buildings are subject to somewhat less accelerated depreciation. In certain special cases (such as pollution control facilities, railroad rolling stock, and rehabilitation of low-income housing) the Code permits rapid amortization, usually for five years, in lieu of depreciation.

c. The investment credit, which from 1962 to 1969 allowed a credit against tax of up to 7 percent of investment in machinery and equipment is no longer applicable.

3. Capital Gains. Capital gains of corporations are subject to tax at a rate, after 1970, of 30 percent, except that, to the extent that the gain results from the recovery of amounts previously deducted as depreciation or amortization, there is a provision for tax at ordinary rates.

4. Mergers and Other Reorganizations. The U. S. Internal Revenue Code contains liberal provisions for the deferment of tax on corporate mergers, acquisitions, and other reorganizations.

5. Taxation of Dividends. Dividends paid by a U. S. corporation to nonresident alien individuals or foreign corporations are generally subject to withholding tax. While the statutory rate of withholding tax is 30 percent, most of our income tax treaties reduce this rate substantially. Of the 21 separate income tax treaties to which the United States is a party, 18 establish a 15 percent withholding rate for dividends. Thirteen of our treaties go further and establish a lower rate for intercorporate direct investment dividends where the foreign corporation owns a specified minimum percentage of the stock of the U. S. corporation - this figure varies from 10 percent in our newer treaties to 95 percent in some of our older treaties. It should be noted that most of our treaties provide that the lower rate will not apply if the U. S. corporation is a holding company.

If, in addition to holding stock in its U. S. corporation, the nonresident alien individuals or foreign corporation are engaged in trade or business in the United States, and if the stockholding is effectively connected with the U. S. business (or, if an income tax treaty is applicable, effectively connected with a U. S. permanent establishment), then the dividends are not subject to the withholding tax but are subject to tax as part of the income of the U. S. trade or business or permanent establishment. If the stockholder is a corporation, this would be an advantage as the 100 percent or 85 percent dividends received deduction would apply. However, if the U. S. trade or business has no special connection with the stockholding, the stock will not be treated as effectively connected and the statutory or treaty withholding rates would be applicable. Similar principles apply in the case of effectively connected interest and royalties except that actual expenses may be deducted rather than the statutory dividends received deduction.

In no U. S. treaty is the withholdinq rate on intercorporate dividends reduced below 5 percent. For many years prior to 1964 our Federal tax law provided in effect that 15 percent of dividends received by a domestic corporation from a domestic subsidiary was includible in taxable income of the parent. This produced a tax of some 7.5% on such dividends. Since 1964 the U. S. Internal Revenue Code has provided for a 100 percent dividends received deduction for dividends received by a domestic corporation from 80 percent owned domestic subsidiaries. The same result can be achieved through the election of a consolidated return. This seems to raise a question that is deserving of consideration, whether the same treatment should not apply to dividends paid to a foreign corporate stockholder which holds 80 percent of the stock of a U. S. subsidiary if the country of which the corporate stockholder is a resident is willing to agree to a reciprocal treaty provision providing such an exemption.

6. Taxation of Interest. In addition to making its investment in the form of equity, the foreign direct investor may invest in the form of loans or advances to its U. S. subsidiary. At times some question may exist as to whether an investment that is in form a loan is in substance an equity investment in stock. There have been a number of court decisions dealing with this matter. Section 385 of the Internal Revenue Code, added by the Tax Reform Act of 1969, now permits the Treasury to issue regulations to provide clarifying rules as to when debt or equity treatment is appropriate.

Assuming that the funds furnished by the direct investor are treated as debt, the U. S. corporation is entitled to a deduction, in determining its taxable income, for the interest paid. The foreign stockholder is subject to a withholding tax at the statutory rate of 30 percent unless an income tax treaty is applicable. If a treaty governs, the treaty is likely to provide a reduced rate or will provide full exemptions from the withholding tax. Our income tax treaties with 11 countries--Austria, Denmark, Finland, Germany, Greece, Ireland, Luxemburg, Netherlands, Norway, Sweden, and the United Kingdom--generally exempt interest income from withholding tax. In the case of Greece and Ireland, however, the exemption does not apply to interest paid by a U. S. corporation to a Greek or Irish corporation which owns more than 50 percent of the voting stock of the U. S. corporation. Our proposed treaty with Belgium exempts many categories of interest, including interest arising out of commercial credit, and provides a 15 percent withholding rate for other interest. Our treaty with Switzerland reduces the statutory rate of withholding to 5 percent. In our treaties with France and Japan the rate is 10 percent and our treaty with Canada generally provides for a 15 percent rate.

The United States takes the view that in income tax treaties between developed countries it is appropriate to provide a reciprocal exemption for interest. In such a case the interest is subject to tax only in the country where the recipient is resident.

7. Taxation of the Parent Corporation Furnishing Patents, Know-how or Services. In addition to providing funds to its U. S. subsidiary, a foreign parent may furnish patents, know-how or services of one sort or another to the subsidiary.

If the parent licenses patents, know-how or similar rights to its subsidiary, the subsidiary can deduct reasonable royalties. The foreign parent is subject to

U. S. withholding tax on the royalties. The statutory rate is 30 percent. As in the case of interest income, tax treaties typically reduce the rate or provide complete exemption. Industrial royalties are generally exempt from withholding tax under 14 of our income tax treaties--those with Austria, Belgium, Denmark, Germany, Greece, Ireland, Italy, Luxemburg, Netherlands, Norway, Pakistan, Sweden, Switzerland, and the United Kingdom. Our treaty with France provides for a 5 percent withholding rate, while the rate in the Japanese treaty is 10 percent. Under the U.S.-Canadian treaty the withholding rate on such royalties is 15 percent.

Instead of licensing the U. S. subsidiary, the parent can decide to assign a U. S. patent, the U. S. rights to a secret process or a U. S. trademark to its subsidiary in exchange for cash or stock of the subsidiary. In such a case the United States would not ordinarily impose a tax on any gain realized by the parent on the transfer, since the parent would be entitled to the exemption for capital gains of foreign corporations which are not effectively connected with a trade or business in the United States. Since such a connection would be rare, the gain would generally not be taxable.

U. S. withholding tax on the royalties. The statutory rate is 30 percent. As in the case of interest income, tax treaties typically reduce the rate or provide complete exemption. Industrial royalties are generally exempt from withholding tax under 14 of our income tax treaties--those with Austria, Belgium, Denmark, Germany, Greece, Ireland, Italy, Luxemburg, Netherlands, Norway, Pakistan, Sweden, Switzerland, and the United Kingdom. Our treaty with France provides for a 5 percent withholding rate, while the rate in the Japanese treaty is 10 percent. Under the U.S.-Canadian treaty the withholding rate on such royalties is 15 percent.

Instead of licensing the U. S. subsidiary, the parent can decide to assign a U. S. patent, the U. S. rights to a secret process or a U. S. trademark to its subsidiary in exchange for cash or stock of the subsidiary. In such a case the United States would not ordinarily impose a tax on any gain realized by the parent on the transfer, since the parent would be entitled to the exemption for capital gains of foreign corporations which are not effectively connected with a trade or business in the United States. Since such a connection would be rare, the gain would generally not be taxable.

If a U. S. corporation pays a reasonable fee to its parent corporation for technical, management or other services, the U. S. corporation can deduct the amount paid. Under the U. S. domestic law such fees would be considered as fixed or determinable, annual or periodical income and therefore would be subject to tax at the statutory withholding rate of 30 percent. However, under our treaties the fee would ordinarily be treated as industrial or commercial profits and unless the parent itself has a permanent establishment in the United States through which it derived the fees, it would not be subject to U. S. tax on the fees received.

. . . .

The foregoing comments represent a brief review of the basic rules which a typical direct investor in the United States might face in determining the U. S. tax liability of its subsidiary in the United States and its own U. S. tax liability. I have not mentioned state income taxes which are in effect in most of our larger states. It should be noted, however, that the rates of state tax are comparatively low and are deductible in computing income that is subject to Federal income tax. The rate of such tax typically falls within the 5 to 7 percent range.

I would like to also comment on two further points: our proposal pending in Congress relating to a Domestic International Sales Corporation (or DISC) and intercompany allocations.

DISC is proposed legislation under which a U. S. exporter could defer part of its Federal income tax on income from exports by exporting through a domestic international sales corporation. A DISC could be formed by foreign investors. In such a case full ordinary tax rates would apply on distributions from the DISC to its foreign stockholders.

The United States in section 482 of its Internal Revenue Code and most other countries permit their tax authorities to, in effect, adjust transactions between related taxpayers in different countries to prevent tax avoidance. Such adjustments may result in double taxation if the other country does not permit a correlative adjustment. For example, if a foreign parent sells a component at $3 to its U. S. subsidiary and the foreign tax authorities sought to impose tax on the basis of a $4 price and the United States imposed tax on the basis of the $3 price actually charged, $1 of income would be subject to income tax in both countries. The principal mechanism for dealing with this type of case is mutual agreement under a double taxation treaty. The two countries would attempt to agree on a single price on the basis of which both would impose tax. If $3.50 were agreed upon, the foreign country would collect additional tax on 50¢ and the United States would credit or refund its tax on 50¢. While the experience in solving problems of this sort under our treaties is not great, we are confident that the treaties and the officials charged with responsibility for administration will prove equal to the task. From the point of view of the United States, I can assure you that we will approach mutual agreement negotiations with a spirit of compromise based on a strong determination to avoid double taxation.

I should also add a word about the administration of the Federal income tax. The Treasury Department makes every effort to publish comprehensive guidance to taxpayers on all questions of general importance, and accordingly it is relatively easy to discover what the rules are. With respect to many types of cases, a taxpayer can apply for a private ruling as to the treatment of a proposed transaction so that he can be sure of the tax treatment in his individual case.

We rely, to a large extent, on voluntary compliance. Our taxpayers report their own income and generally compute their own tax. Of course, there is provision for a verification of tax returns, and computer technology is playing an increasing role in this. In general, our system works remarkably well. ~~with most people voluntarily paying the tax imposed by the law~~.

In closing, permit me to assure you of the welcome which the United States Treasury Department extends to foreign direct investment in the United States. The principles for taxing income from such investment are, I believe, reasonably simple and fair. If the Treasury Department or the Internal Revenue Service can be of assistance to you in considering their application to individual cases, we shall be pleased to have you consult with us.

Department of the TREASURY

NEWS

ISHINGTON, D.C. 20220 TELEPHONE W04-2041

427

FOR IMMEDIATE RELEASE October 13, 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 $3,200,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing October 22, 1970, in the amount of $3,104,290,000, as follows:

91-day bills (to maturity date) to be issued October 22, 1970, in the amount of $1,800,000,000, or thereabouts, representing an additional amount of bills dated July 23, 1970, and to mature January 21, 1971, originally issued in the amount of $1,300,110,000, the additional and original bills to be freelv interchangeable.

182- day bills, for $1,400,000,000, or thereabouts, to be dated October 22, 1970, and to mature April 22, 1971 (CUSIP No. 912793 KE5).

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, $15,000, $50,000, $100,000, $500,000 and $1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Daylight Saving time, Monday, October 19, 1970. Tenders will not be received at the Treasury Department, Washington. Each tender must be for a minimum of $10,000. Tenders over $10,000 must be in multiples of $5,000. 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 accompanie 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 October 22, 1970, in cash or other immediately available funds or in a like face amount c Treasury bills maturing October 22, 1970. Cash and exchange tender will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

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 considered to accrue when the bills are sold, redeemed or otherwise disposed of, and the bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder must include in his income tax return, as ordinary gain or loss, the difference between the price paid for the 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.

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.

oOo

Department of the TREASURY NEWS

SHINGTON, D.C. 20220 TELEPHONE W04-2041

FOR RELEASE 1:00 PM, CDT (OR 2:00 PM, EDT)

REMARKS BY ERNEST C. BETTS, JR.
ASSISTANT SECRETARY FOR ADMINISTRATION
DEPARTMENT OF THE TREASURY
BEFORE THE FEDERAL OFFICIALS ASSOCIATION
MILWAUKEE ATHLETIC CLUB
MILWAUKEE, WISCONSIN
WEDNESDAY, OCTOBER 14, 1970

It is indeed a great pleasure to meet with this group of distinguished Federal officials, and to have the opportunity to thank you for your service to Treasury and to the nation.

As of June 30, 1970 more than 3.2 million Federal workers -- both military and civilian -- were enrolled in the Payroll Savings Plan. Total purchases during Fiscal Year 1970 exceeded $1 billion. Monthly per capita purchases remain at the high level of more than $25 per month.

Unhappily, however, these are not "peak" figures. The overall participation rate of 62 percent on June 30 is the lowest June 30 rate since 1966. The April-June purchases of $247 million dropped below the annual billion dollar rate for the first time since 1966. So, we in the Federal Government must intensify our efforts; we must recover the ground lost. I think we now have a better Savings Bonds package to sell and our results in 1971 should improve.

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

We all know the value of Savings Bonds to the individual holder as a nest egg -- a reserve for emergencies, retirement, a new home, education for the children, a well-earned vacation, and so on. But many of us have a rather imprecise view of the value of Savings Bonds to the management of the finances of our Government. We know they have something to do with fighting inflation and with managing the national debt, but we aren't quite sure how this is accomplished. And so I'd like to take a few minutes today to discuss briefly the character of the national debt -- and to relate the Savings Bonds Program to debt management.

To begin with, Savings Bonds are an important component of our entire Federal debt structure. Treasury debt totaled about $371 billion at the end of Fiscal 1970. Of that total, about $95 billion was held by Government accounts, such as the Social Security Trust Fund, Civil Service Retirement Fund, Unemployment Trust Fund, and others. The Federal Reserve System held about $58 billion of Treasury debt, which it had accumulated in the process of providing reserves to the banking system to support the orderly growth of the money supply. This left in the hands of the general public $218 billion of U.S. Treasury securities, about 60 percent of the total outstanding.

Of this $218 billion total, $158 billion is in the form of marketable securities, and a small additional amount ($8 billion) is in non-marketable securities other than Savings Bonds. The balance -- more than $52 billion -- is made up of E and H Bonds and Savings Notes (Freedom Shares). This $52-plus billion represents just under one-fourth of the $218 billion of Treasury obligations held by the general public.

But the importance of Savings Bonds in terms of managing the national debt is not fully reflected in this single fraction of one-fourth -- significant though it is. The fact is that Savings Bonds today, even with their shorter initial maturities, constitute the backbone of the Government's longer-term debt.

Because of the 4-1/4 percent interest rate ceiling on Government bonds that dates from the first World War, the Treasury has been prevented from issuing any securities of more than 7 years to maturity since May 1965. Largely, as a result, the average maturity of the privately held marketable debt has declined from 5 years, 9 months, in 1965 to a current level of 3 years, 7 months. This is hardly a satisfactory or reassuring picture, from at least two points of view.

First, as the average maturity of the debt declines, this debt increasingly takes on the characteristics of money -- it becomes more liquid, and hence more "spendable," even at times when there is a need to hold down spending.

Secondly, the short average maturity of the Government's debt is a reflection of a large volume of short term securities that requires constant refinancing in the capital markets. This job of refinancing can become one of considerable difficulty, not just for our debt managers, who are paid to worry about such things, but because of its impact on the capital markets on which private and municipal borrowers as well as the Federal Government depends. Even after eliminating Treasury bills, which come due as frequently as every 90 days, nearly $1 in $5 of the marketable securities held by the general public mature and must be refunded each year. This is a costly operation.

Against this backdrop, it is not difficult to understand why we want to continue to be able to count on a solid base of funds provided to the Government in the form of Savings Bonds. On the basis of past experience, we can predict that the Savings Bonds sold today, on the average will not be redeemed for 5-1/2 years, considerably longer than the dollars obtained through marketable issues. Therefore, Savings Bonds provide a high degree of stability to the management of the public debt. This may sound strange, when one hears so often that Savings Bonds are cashed in practically as soon as they are bought. It is true that there are those who turn them in after the minimum waiting period, and early redemptions are a problem. But, by and large, our buyers do hold onto their Savings Bonds for longer periods of time. Every analysis we have made shows that, in comparison with deposits at commercial banks, savings and loan associations, and mutual savings banks, people hold their Savings Bonds longer.

I'd like to mention one other fact bearing upon the importance of Savings Bonds to the Government. It may surprise you, as it did me. Since the end of World War II financing -- the end of Calendar 1946 -- increased holdings of Savings Bonds represent a substantial part of the total increase in the amount of public debt in the hands of private holders. So that you are not misled by this statement, let me quickly say that this is primarily so, not because the net increase in Savings Bonds has been so large, nor because the budget deficits you have read about never really occurred, but rather because the Government trust funds and the Federal Reserve System have through their normal operations, absorbed a large part of the net increase in the outstanding public debt. Nevertheless, it is significant that through the end of Fiscal 1970 Savings Bonds and Notes provided $2.2 billion of the $9.7 billion net increase in the total amount of Government debt held by the general public between December 1946 and June 1970.

I think that we in the Federal bureaucracy are frequently reminded of the growing public debt and of its absolute size that we accept it as an important factor in our economic structure. However, it is necessary that we keep the debt in perspective. It is a fact as I have noted above that the public debt in the hands of private investors has grown relatively little since the end of 1946 and if we were to compare it to a point nearer the close of the war at the end of 1945 the debt held by the public has actually declined. Using another measure, the debt at the end of

World War II was somewhat greater than our total national output but growth in our output has reduced the relative size so that the $371 billion of total debt on June 30 of this past year represented a little over one-third of the gross national product. Similarly during this nearly quarter of a century while the public debt increased about 40 percent, corporate debt rose 600 percent, mortgage debt 900 percent, and consumer debt 2000 percent. Though these comparisons would be slightly altered if federally sponsored credit programs were included as Government expenditures, the rather popular notion of spiraling Federal debt is still not correct.

Taking a look at the current picture, it is true that the outlook for the Federal budget for 1971 looks rather murky. The last official estimate in May of a $1.3 billion deficit is clearly out of date due to several factors -- actions and inactions by the Congress, the economic downturn with lower receipts, and some increase in uncontrollable expenditures. We are heartened by the evidence that interest rates are declining, inflationary pressures are on the wane, and that the economic health of the nation seems to be improving.

I have tried to indicate in these remarks not only the importance of Savings Bonds in the past, but why I believe Savings Bonds will continue to be important to the Government and to the individual in the future. I would like to add that I recognize that the Government has a responsibility to see to it that those who buy Savings Bonds are given a fair return on their investment and I think generally over the years we have met this latter obligation.

With the new 1/2 percent bonus bringing the yield to maturity to 5-1/2 percent, Savings Bonds are again reasonably competitive with comparable savings alternatives. In fact the continued growth of this type of security is indicative of the important place this form of investment has in our American way of life and the acceptance it has been given by the public. Therefore, I do not believe that we need to apologize for the fact that Savings Bonds do not carry a return as high as some marketable securities.

After all, Savings Bonds provide a convenient method of saving for the small saver that is not available to him in marketable instruments, they bear none of the risks associated with marketable investments, and in general, they are designed to provide a fair and stable return over the longer run.

It is not the intent of the Government to pull savings out of financial intermediaries into Savings Bonds, but simply to provide a rate of return that does not discriminate against the purchasers of Savings Bonds and provide you with a product that you can sell in good conscience. I think we have that product.

I know that as leaders of the Federal sector of Milwaukee you are aware of the importance we in Treasury place on this program. I haven't mentioned the payroll savings feature because you are so thoroughly familiar with it. Nevertheless, I would be remiss if I did not give this group a special "thank you" for your efforts in promoting the purchase of Savings Bonds through the payroll savings in your agencies.

Thank you.

oOo

Department of the TREASURY NEWS

INGTON, D.C. 20220 TELEPHONE W04-2041

FOR RELEASE AT 2:00 PM, CDT (OR 3:00 PM, EDT)

REMARKS BY ERNEST C. BETTS, JR.
ASSISTANT SECRETARY FOR ADMINISTRATION
BEFORE
THE ADVERTISING MEDIA CREDIT
EXECUTIVES INTERNATIONAL CONVENTION
PFISTER HOTEL, MILWAUKEE, WISCONSIN
WEDNESDAY, OCTOBER 14,1970

It is a very real pleasure for me to be here in Milwaukee and in my native state.today, and to have this opportunity to visit with this distinguished group of advertising media credit executives.

Over the years, The Advertising Council -- through its task force agencies -- and the media -- both print and broadcast -- have contributed millions of dollars worth of advertising for the Savings Bonds Program. We in Treasury can't thank all of you in advertising enough for your unfailing, your unflagging support. Your public service contribution is appreciated most genuinely by the Treasury Department.

I've been asked to share my views on the U.S. economy with you. As executives with immense expertise in the field of credit, you need not be reminded of the impact of the state of the economy and inflation on credit and vice versa.

Today, I can report to you that I believe that the U.S. economy is clearly heading toward the objective of curbing inflation while resuming healthy growth. The fiscal and monetary measures are working. They have accomplished the necessary slowing of the economy. They are now operating to support a moderate expansion and all this was done without the dislocation of a sudden, jarring move into reverse.

The adjustments underway in the economy reflect the results of two policy objectives:

-- To curb the accelerated rise in prices since mid-1965, by reducing the rate of increase in money demand through fiscal and monetary restraints.

-- To avert any serious contraction in real growth and employment and to assure a revival in the economy by the second half of the year, while checking the growth of total money expenditures.

In broad outline, if not precisely, the twin policy objectives have been met.

The objective of economic cooloff had been planned by means of traditional policies of monetary and fiscal restraint, and its arrival had been expected during the first half of 1970. On this score, the present economic plans and policies must be considered successful. The excess of demand, which had generated overheating in the economy and produced the fundamental condition of the inflation, in fact, was eliminated in the expected time frame.

This process was accompanied by difficult adjustments, which, in the past, had been accompanied by cumulative and deep declines in economic activity. Indeed, the risks of a cumulative economic decline were even greater this time because two major forces were exerting downward pressures:

-- cutbacks in defense spending, which were part of a shift in the re-ordering of Federal expenditure priorities; and

-- the fiscal and monetary restraints imposed to control inflation.

Through the.use of appropriate and flexible policies, the successful avoidance of a major recession must surely be considered a considerable achievement.

I should point out that -- alongside the general program of fiscal and monetary restraint -- the determined efforts of President Nixon through his latest efforts -- including those announced last Wednesday night -- to scale down and even terminate the Vietnam conflict have set the stage for a decline in defense spending projected at more than $5 billion during the current fiscal year. Manpower and budget resources are being released for more productive use in areas of high social and economic need. Thus the process that contributed so strongly to the build-up of inflationary momentum in the latter half of the 1960's is being reversed.

Eliminating excess demand and braking inflation exacted a cost. By the turn of the year, real economic growth in the United States had been temporarily brought to a standstill. As pressures on the labor market subsided, the unemployment rate this summer rose to something over 5 percent -- considerably higher than would be appropriate over any extended period of time.

However, considerable evidence is also accumulating that the needed adjustments in expectations and actual pricing behavior are under way. The most encouraging sign is that industrial wholesale prices -- normally a good barometer of the pricing environment --

rose at a seasonally adjusted annual rate of barely more than 2-1/2 percent over the summer, substantially less than the 4 percent rate experienced in 1969. Productivity growth seems to be resuming, helping manufacturers to absorb higher labor costs. The rise in consumer prices has also begun to slow. Accordingly, the basis for a reduction in pressure for price increases has been made. The economy clearly has moved past a crossover point towards expansion.

Accordingly, the cautious and responsible financial policies will be maintained. Some budgetary deficit will be accepted this year when the economy is not under demand pressure.

It is true that the outlook for the federal budget for 1971 looks rather murky. The last official estimate in May of $1.3 billion deficit is out of date due to several factors:

-- actions and inactions by the Congress;

-- the economic downturn with lower receipts;

-- increase in uncontrollable portions of the budget.

I think there will be some rebuilding of private liquidity. The money and capital markets already reflect some easing of tensions, and there are now signs of a resumption of economic growth. A new buoyancy in the economic environment has emerged. The progress in guiding the economy toward reasonable price stability, without lapsing into recession, is, I believe, a noteworthy achievement. But the financial managers of government are as fully aware of the danger of too fast expansion and renewed over-heating as they were of deep recession. Government spending will try to be kept below the limits set by the revenue potential at high levels of income and employment. An expansion of money and credit of proportions that could fuel an excessive burst of demand will not be encouraged. A steady, rather than precipitous, advance offers the best prospect for combining fuller employment with greater price stability.

The rise in the stock market and the slowdown in the advance of wholesale and retail prices have contributed to expectations of expansion in the months ahead. By sectors, these developments seem probable:

-- Consumers may be expected to spend more. Much of the special additions to their income -- more social security benefits, phasing out of the surtax, increased Federal pay -- have been reflected in higher saving rates than in spending. This will change.

-- Inventories have not become excessive, as in other slowdowns. As sales improve, production for inventories will add strength to the recovery.

-- Housing starts already have responded to monetary policy, as funds have accumulated at mortgage-granting institutions.

-- Prospects for a turnaround in business investment appear brighter in view of an upturn expected in new appropriations by manufacturers in the third quarter, as reported to The Industrial Conference Board.

-- State and local governments will resume strong growth in spending, as lowered bond yields promote what already are heavy flotations.

As expansion is resumed, the issue arises whether re-acceleration of prices will emerge. Reactivation of inflationary pressures can be averted by sound policies. One prime requisite is the management of fiscal policy, which is not overstimulative; and at the same time to assure that important national needs are met through the Federal Budget. This would avoid the need for sharp swings in monetary policy directed to stabilize the economy.

Hopefully, the recovery of the economy will proceed at such a pace wherein inflationary fires are not rekindled by an abrupt elimination of the gap between potential and actual capacity of the economy to produce. A gradual path in eliminating this gap is the best promise of full employment without inflation. Under these circumstances, the power of productivity gains to offset the effects of wage increases on unit labor costs, over the long run, could operate to reduce upward price pressures.

Finally, removal of structural barriers to the operations of labor markets by eliminating such barriers to entry as racial discrimination, overlong apprenticeships, better matching of skills with unfilled jobs, etc., could expand the supply of labor, increase productivity, and reduce inflationary pressures.

This type of economic policy would overcome the cost of a depressed economy as a condition of freedom from inflation.

Now, I wish to conclude with a few statements about a favorite subject of mine -- Savings Bonds. With the new 1/2-percent bonus bringing the yield to maturity to 5-1/2 percent, Savings Bonds provide a fairer return, more competitive with the most comparable types of other investments.

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

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

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

The goal for 1970 is to sign up two million industrial employees as new payroll savers, or as savers who increase their allotments for the purchase of Bonds.

With the help of dedicated Americans such as those joined together today, we are well on the way to achieving that goal.

Thank you.

oOo

Department of the TREASURY

INGTON, D.C. 20220 TELEPHONE W04-2041

NEWS

FOR RELEASE 3:30 PM, CDT (4:30 PM, EDT)

REMARKS BY ERNEST C. BETTS, JR.
ASSISTANT SECRETARY FOR ADMINISTRATION
BEFORE
THE WISCONSIN HOSPITAL ASSOCIATION
PFISTER HOTEL, MILWAUKEE, WISCONSIN
WEDNESDAY, OCTOBER 14, 1970

I am delighted to be in Milwaukee today and to have the opportunity of spending a few moments with the distinguished membership of the Wisconsin Hospital Association.

I need not extol the numerous and varied advantages of the Savings Bonds Program. Many of you -- under the good auspices of the American Hospital Association -- are cooperating in the "Bonds for new babies" project, distributing Savings Bonds leaflets to the mothers of newborn children. And, of course, many of you prescribe Savings Bonds for yourselves and your employees -- offering the Payroll Savings Plan as a strong medication for financialitis.

I've been asked to share my views on the U.S. economy with you.

Today, I can report to you that I believe that the U.S. economy is clearly heading toward the objective of curbing inflation while resuming healthy growth. The fiscal and monetary measures are working. They have accomplished the necessary slowing of the economy. They are now operating to support a moderate expansion and all this was done without the dislocation of a sudden, jarring move into reverse.

The adjustments underway in the economy reflect the results of two policy objectives:

- -- To curb the accelerated rise in prices since mid-1965, by reducing the rate of increase in money demand through fiscal and monetary restraints.
- -- To avert any serious contraction in real growth and employment and to assure a revival in the economy by the second half of the year, while checking the growth of total money expenditures.

In broad outline, if not precisely, the twin policy objectives have been met.

The objective of economic cooloff had been planned by means of traditional policies of monetary and fiscal restraint, and its arrival had been expected during the first half of 1970. On this score, the present economic plans and policies must be considered successful. The excess of demand, which had generated overheating in the economy and produced the fundamental condition of the inflation, in fact, was eliminated in the expected time frame.

This process was accompanied by difficult adjustments, which, in the past, had been accompanied by cumulative and deep declines in economic activity. Indeed, the risks of a cumulative economic decline were even greater this time because two major forces were exerting downward pressures:

- -- cutbacks in defense spending, which were part of a shift in the re-ordering of Federal expenditure priorities; and

-- the fiscal and monetary restraints imposed to control inflation.

Through the.use of appropriate and flexible policies, the successful avoidance of a major recession must surely be considered a considerable achievement.

I should point out that -- alongside the general program of fiscal and monetary restraint -- the determined efforts of President Nixon through his latest efforts -- including those announced last Wednesday night -- to scale down and even terminate the Vietnam conflict have set the stage for a decline in defense spending projected at more than $5 billion during the current fiscal year. Manpower and budget resources are being released for more productive use in areas of high social and economic need. Thus the process that contributed so strongly to the build-up of inflationary momentum in the latter half of the 1960's is being reversed.

Eliminating excess demand and braking inflation exacted a cost. By the turn of the year, real economic growth in the United States had been temporarily brought to a standstill. As pressures on the labor market subsided, the unemployment rate this summer rose to something over 5 percent -- considerably higher than would be appropriate over any extended period of time.

However, considerable evidence is also accumulating that the needed adjustments in expectations and actual pricing behavior are under way. The most encouraging sign is that industrial wholesale prices -- normally a good barometer of the pricing environment --

rose at a seasonally adjusted annual rate of barely more than 2-1/2 percent over the summer, substantially less than the 4 percent rate experienced in 1969. Productivity growth seems to be resuming, helping manufacturers to absorb higher labor costs. The rise in consumer prices has also begun to slow. Accordingly, the basis for a reduction in pressure for price increases has been made. The economy clearly has moved past a crossover point towards expansion.

Accordingly, the cautious and responsible financial policies will be maintained. Some budgetary deficit will be accepted this year when the economy is not under demand pressure.

It is true that the outlook for the federal budget for 1971 looks rather murky. The last official estimate in May of $1.3 billion deficit is out of date due to several factors:

-- actions and inactions by the Congress;

-- the economic downturn with lower receipts;

-- increase in uncontrollable portions of the budget.

I think there will be some rebuilding of private liquidity. The money and capital markets already reflect some easing of tensions, and there are now signs of a resumption of economic growth. A new buoyancy in the economic environment has emerged. The progress in guiding the economy toward reasonable price stability, without lapsing into recession, is, I believe, a noteworthy achievement. But the financial managers of government are as fully aware of the danger of too fast expansion and renewed over-heating as they were of deep recession. Government spending will try to be kept below the limits set by the revenue potential at high levels of income and employment. An expansion of money and credit of proportions that could fuel an excessive burst of demand will not be encouraged. A steady, rather than precipitous, advance offers the best prospect for combining fuller employment with greater price stability.

The rise in the stock market and the slowdown in the advance of wholesale and retail prices have contributed to expectations of expansion in the months ahead. By sectors, these developments seem probable:

-- Consumers may be expected to spend more. Much of the special additions to their income -- more social security benefits, phasing out of the surtax, increased Federal pay -- have been reflected in higher saving rates than in spending. This will change.

-- Inventories have not become excessive, as in other slowdowns. As sales improve, production for inventories will add strength to the recovery.

-- Housing starts already have responded to monetary policy, as funds have accumulated at mortgage-granting institutions.

-- Prospects for a turnaround in business investment appear brighter in view of an upturn expected in new appropriations by manufacturers in the third quarter, as reported to The Industrial Conference Board.

-- State and local governments will resume strong growth in spending, as lowered bond yields promote what already are heavy flotations.

As expansion is resumed, the issue arises whether re-acceleration of prices will emerge. Reactivation of inflationary pressures can be averted by sound policies. One prime requisite is the management of fiscal policy, which is not overstimulative; and at the same time to assure that important national needs are met through the Federal Budget. This would avoid the need for sharp swings in monetary policy directed to stabilize the economy.

Hopefully, the recovery of the economy will proceed at such a pace wherein inflationary fires are not rekindled by an abrupt elimination of the gap between potential and actual capacity of the economy to produce. A gradual path in eliminating this gap is the best promise of full employment without inflation. Under these circumstances, the power of productivity gains to offset the effects of wage increases on unit labor costs, over the long run, could operate to reduce upward price pressures.

Finally, removal of structural barriers to the operations of labor markets by eliminating such barriers to entry as racial discrimination, overlong apprenticeships, better matching of skills with unfilled jobs, etc., could expand the supply of labor, increase productivity, and reduce inflationary pressures.

This type of economic policy would overcome the cost of a depressed economy as a condition of freedom from inflation.

Now, I wish to conclude with a few statements about a favorite subject of mine -- Savings Bonds. With the new 1/2-percent bonus bringing the yield to maturity to 5-1/2 percent, Savings Bonds provide a fairer return, more competitive with the most comparable types of other investments.

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

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

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

The goal for 1970 is to sign up two million industrial employees as new payroll savers, or as savers who increase their allotments for the purchase of Bonds.

With the help of dedicated Americans such as those joined together today, we are well on the way to achieving that goal.

Thank you.

oOo

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

MEMO TO CORRESPONDENTS October 14, 1970

The Daily Bond Buyer today published a special edition in which appears an article by Deputy Under Secretary for Monetary Affairs Bruce K. MacLaury. The article, a copy of which is attached, is entitled, "Treasury's Case For An Environmental Financing Authority."

Attachment

In his message to the Congress last February outlining his legislative proposals to improve the quality of the environment, President Nixon called for the creation of a new Environmental Financing Authority "to ensure that every municipality in the country has an opportunity to sell its waste treatment plant construction bonds."

This proposal represented an important facet of the President's broader recommendation for a $10 billion program over a five-year period to provide waste treatment plants to meet national water quality standards. Of the total $10 billion program, it is expected that the Federal Government would provide $4 billion in grants to match $6 billion of capital to be raised by local governments.

Helping to finance the local share of this program is where EFA comes in. If a municipality could not market waste treatment construction bonds at reasonable rates, to fund its participation in this program, the proposed new agency would be prepared to buy them and sell its own obligations instead. Stated in such broad terms, the proposal understandably raises a number of questions, both of a broad philosophical nature, and of specific mechanics, that deserve to be explored before one should expect full support for the proposal.

William E. Simon, partner of Salomon Brothers, and Vice president for municipal finance of the Investment Bankers Association, raised just such questions when he testified on the Administration bill (S.3468) before the Senate Subcommittee on Air & Water Pollution last May. I think it would be useful to examine these questions, and in the process hopefully explain why the Administration believes EFA can make an important contribution to the mammoth job of financing improvements in our environment.

HOW IT WOULD WORK

In briefest outline, the Authority would function in the following manner. Operating under a five-man board of directors composed of Government officials, the Secretary of the Treasury or his designee serving as chairman, the Authority would be empowered to purchase obligations issued by State and local public bodies if the Secretary of the Interior certified that such potential borrowers were unable to obtain sufficient credit at reasonable rates, but were otherwise eligible to participate in the Interior Department's waste treatment program. The interest rate to be charged by EFA on such purchases would be determined by the Secretary of the Treasury taking into account market yields on (1) Treasury (or eventually, Authority) securities, and (2) municipal bonds.

EFA, in turn would issue its own securities in the taxable market, without guaranty but with the Treasury authorized to purchase these obligations to insure marketability. In addition, the Treasury would be authorized to pay to the Authority annually an amount sufficient to cover the difference between the Authority's borrowing costs and its return on local securities purchased.

Dealing first with questions concerning the specifics of the EFA proposal, the IBA claims that the new Authority would create "an unfortunate diffusion of responsibility in the Federal pollution control program and add unnecessary administrative complexity..." In point of fact, as Secretary David M. Kennedy testified on June 9:

> "The function of the Authority would be purely financial. It would not make judgement regarding either environmental matters, or the needs or creditworthiness of its borrowers. These judgements 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."

NO SECOND GUESSING

There would be no second guessing of one department by another, and once certified as eligible by the Interior

Department, the potential borrower should have to contend with a minimum of red tape. There would be no waiting in queue, since the Authority, as a financing conduit, would be authorized to raise funds as needed in the market.

Essentially, the decision as to whether or not to make use of the Authority as a financial intermediary would be up to the local public body, whose decision would be based on a comparision of the costs of marketing its own obligations with the cost of accepting the Authority's then going rate.

In this connection, it was argued that the Secretary of the Interior would have a difficult assignement determining and certifying, that a potential borrower was unable to obtain "at reasonable rates" sufficient credit to finance his actual needs. Although there would undoubtedly be borderline cases, the rate posted by the Authority at any given time would effectively determine this decision.

As a practical matter, if a local public body could raise funds on its own tax-exempt obligations at lower cost than the Authority's rate, this would by definition be "reasonable" in every sense of the word. This does not dispose of the question of what are "reasonable rates," but it means that this question really confronts the Secretary of the Treasury in determining the Authority's lending rate, rather than confronting the Secretary of the Interior.

THE NEXT QUESTION

Indeed, this is the next question raised by the IBA --- how is the Secretary of the Treasury going to determine the rate at which the Authority would lend, given the vagueness of the legislative language stipulating that he take into consideration (1) the current market yield on outstanding Treasury securities (or Authority's securities, when a sufficient amount are outstanding), and (2) the market yields on municipal bonds? The answer to this fundamental question rests basically on the stated purpose of the Act -- "To assure that inability to borrow at reasonable rates necessary funds does not prevent any State or local public body from carrying out any project" authorized by the Secretary of the Interior.

Since the key phrase "reasonable rates" appears again, this may sound like circular reasoning, but it isn't. Not only this stated purpose, but the whole legislative record to date indicates that EFA is designed to assist only those borrowers who would otherwise find themselves at the high end of the range in terms of borrowing costs.

Admittedly, there is no precise guide as to how large "the high end of the range" should be . But the general intent is that under normal market conditions, EFA might lend at a rate approximately equivalent to the rate on medium quality, or "Baa", municipal bonds. Based on the experience of the last five years, EFA thus might provide somewhat less than one-fourth of the funds to municipal borrowers under the Interior Department grant program. But there should be no fixed ratio, since it would seem "reasonable" that EFA should fund a smaller portion of the municipal waste treatment needs when credit conditions were relatively easy (and the ratio of the tax-exempt to taxable borrowing rates lower) than when credit conditions were tight.

CONTRARY TO PURPOSE

While from one point of view, it is easy to understand the IBA's concern over the "distinct possibility that EFA's relending rate might be set very low in an effort to get widespread use of the Authority as a substitute, rather than as a supplement, to conventional municipal bond financing," this would be clearly contrary, as they acknowledge, to the stated purpose of the Act.

Two other points of a specific nature deserve comment. First, the IBA questions the need for EFA since "to the best of our knowledge, there has been no issue offered where underwriters have refused to make an offer to purchase bonds unless they are precluded from doing so because of State legislation or constitutional requirements limiting the maximum interest rate."

In the first place, of course, municipalities facing the prospect of market rejection would not proceed to offer securities only to have them "refused." But in any case, no one has alleged that municipalities couldn't borrow if they were prepared to pay the market rate, whatever it might be. But market rates vary considerably on municipal bonds, with some communities paying more than two percentage points more than others, and the range widens during periods of tight money. EFA is intended to help those communities that would have to pay the higher market rates.

RATE CEILING STAND

Second, the IBA is entirely correct in pointing out that EFA will not assist communities precluded from borrowing by local restrictions. Secretary Kennedy said in his testimony:

> "I 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."

On a more general level, the IBA argues (1) that creating another financing agency will not increase the supply of savings one iota, but will simply shoulder other borrowers, including municipalities, out of the way; and (2) that particularly during periods of inflation and tight credit, there should be every effort to reduce government demands on the capital markets by relying on current revenues and, in the case of the Federal pollution control program, increasing the proportion of the program financed by Federal grants.

HIGH PRIORITY PROGRAM

These are fine sentiments indeed. But they do not take as their points of departure the situation as it is. The fact is that water pollution control is among the highest priority programs, whether the priority list is complied by the Administration, the Congress, or the general public. But the needed capital outlays for waste treatment plant construction are not going to be financed to any significant extent from current revenues, either at the Federal or the local levels. (Indeed, there is a question whether priorities are best served by trying to finance capital expenditures from current revenues, but that question is academic.)

As a practical matter, therefore, the choice is not betwee tax or debt financing -- a decision that turns on broad fiscal policy considerations -- but between (a) Federal guaranties or interest subsidies on tax-exempt bonds, or (b) similar Federal credit assistance through EFA on the basis of taxable bonds. Given these alternatives, there is no doubt in my mind that EFA is the better choice. Not only is the overall cost to Federal, State and local governments lower (because of the revenue loss to the Federal Government on tax-exempt securities exceeds the cost-benefit to local governments of tax-exemption), but the interest rate impact on credit markets of centralized agency financing is likely to be less than multiple issues of "Baa" municipals.

A BROADER ARGUMENT

Apart from the desirability of establishing an EFA specifically to assist in the financing of the President's water pollution control program, there is a broader argument favoring this sort of Federal credit assistance to local public bodies. In effect, it could be said the Federal Government has a responsibility to see that the financing burden it imposes on local governments through encouraging participation in Fed rally-sponsored programs, such as that for waste treatment,does not erode the ability of these governments to finance their own projects and capital needs through the tax-exempt market.

To be sure, local governments will always have to have a sufficient revenue base to service the totality of their indebtedness, whether incurred to finance local or Federally-sponsored projects. But there could be something ironic and perverse about Federal assistance that carries with it the intended side effect of inducing sizable additional borrowing by local authorities in a frequently over-burdened tax-exempt market.

It seems reasonable, given the prospect of growing demands from Federally-sponsored programs, that the Federal Government might 'itself seek to assist local governments by providing some method of relieving the additional pressures on the tax-exempt market that its programs generate. Otherwise, Federal assistance would be taking away with one hand part of what it gives with the other.

In this context, the EFA will provide some measure of relief by offering those communities that have to pay high rates to participate in the waste treatment program a choice of selling their bonds to the Authority if the Authority's stop-out rate is attractive. To the extent that local public bodies take advantage of this alternative, part of the additional credit demands will be diverted from the tax-exempt the taxable market.

If EFA will provide a useful vehicle to assist the financing of waste treatment facilities, and at the same time provide some measure of relief to the tax-exempt market, as I believe it will, why then should not this financing alternative be expanded to other partnership programs between the Federal Government and local authorities? The best answer to this question is found in the closing comments of Secretary Kennedy's testimony.

> "We look upon this EFA 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."

oOo

Department of the TREASURY

IINGTON, D.C. 20220 TELEPHONE W04-2041

NEWS

447

FOR RELEASE AT 2:00 P.M.
FRIDAY, OCTOBER 16, 1970

REMARKS BY HENRY C. WALLICH
SEYMOUR H. KNOX PROFESSOR OF ECONOMICS, YALE UNIVERSITY,
AND
SENIOR CONSULTANT TO SECRETARY OF THE TREASURY
DAVID M. KENNEDY
BEFORE
THE AFTERNOON SESSION OF THE SIXTH MUNICIPAL CONFERENCE
INVESTMENT BANKERS ASSOCIATION OF AMERICA
HILTON PALACIO DEL RIO HOTEL, SAN ANTONIO, TEXAS
FRIDAY, OCTOBER 16, 1970

AFTER THE TURN

The uncertainty of the future is always the same. What differs is only the distance ahead before visability ceases. Right now the fog seems to have lifted a little, and we can try to look a little farther ahead before vision once more becomes clouded.

A year ago, there was considerable uncertainty among forecasters even about the direction in which the economy was going. From dire recession to equally dire continuation of an uncontrollable boom, you name it, someone forecast it. Such widespread disagreement about the outlook is natural at times when the economy shifts gears -- going from rapid expansion to slowdown, or from slowdown to renewed expansion. Today there are mounting indications that we are in a new phase of expansion, though still vulnerable to wage disputes.

To this extent, then, the future has come into clearer focus. The new uncertainty is the nature of the coming expansion. Will it be a rapid upsurge, with economic growth accelerating sharply, or will it be a gradual rise that would take somewhat longer to reach a high rate of activity?

The question has major implications for the financial markets. A rapid resurgence would no doubt favor corporate profits, and might aid the stock market. But it would also step up immediately demands upon financial markets that are already heavily burdened. It would raise questions about prospects for bringing down the inflation. A slow rise would involve certain costs -- in terms of output foregone, a slower reduction of unemployment, perhaps less rapid restoration of equity values. But it would give the economy the time it needs to consolidate its position, end the inflation, bring interest rates down, and lay the basis for a long advance the gains from which would outweigh many times any initial sacrifice needed to achieve it.

Policies

I see mounting now, among critics of the policies pursued so far by the Administration and the Federal Reserve, a demand for accelerated expansion. A more expansive Federal spending program, a faster growth of the money supply are being advocated. These proposals come, among others, from men with unquestioned expertise who occupied positions of great responsibilities in past administrations. Quite possibly, in past administrations, such policies would have found acceptance. These expansionist proposals are based, in the main, upon the assumption that inflation is not, or is no longer, a major problem, and that we should minimize the loss of output that results from operating below the economy's potential, as well, of course, as the human suffering from unemployment.

I regard this as dangerous advice, not only or primarily for the financial markets, but for the long-run prospect of our economy. It rests, I believe, upon both a questionable analysis and upon a set of values that is increasingly being challenged on the contemporary scene.

Questionable, in my view, is an analysis that scares us by focusing upon the gap between actual and potential output and by adding up the shortfall as so many tens or hundreds of billion of "loss." It rests upon a wholly arbitrary definition of "potential." Who ordained that man should work only eight hours per day, that many plants and almost all office buildings should stand idle sixteen hours a day, that a great university like Yale should be unemployed all summer? Millions of people attest to their dissatisfaction with the eight-hour day by moonlighting. Many others, in today's conditions, would probably be glad to work longer hours even without overtime if that were possible. I am not suggesting, obviously, to change the rules governing overtime in the presence of above-normal unemployment. I merely want to point out that what it referred to as the "potential" of the economy is nothing like a physical limit. It is the result of man-made limitations, many of them dictated by the needs of the depressed 1930s. If everyone worked nine hours a day -- I realize that for some of you this would mean a reduction in working time -- "potential" would be something quite different. If nobody finds it worthwhile to compute the loss from not working a nine-hour day, I do not see very clearly why the potential based upon eight hours should be all that important a figure.

Inflation

Particularly alarming about the expansionist advice, however, is the diminishing concern with inflation that it implies. I should have thought that our recent and still continuing bout with this disease had made obvious that it is far more painful than had been anticipated. I should have thought also that our growing concern with the quality of life, and the concomitant lesser emphasis on just grinding out more growth, should have altered us to the importance of an environment of reasonable price stability. Both considerations seem to be ignored by the expansionist advice. Inflation has been far more painful than expected for almost everybody. I need not tell you what it has done to the financial markets. It has brought about high interest rates that have depressed the bond markets. It has created a cost squeeze which has depressed the stock market, that once was thought to be an inflation hedge. Workers have seen their pay gains eroded, pensioners their stable retirement income. All the easy adjustments to rising prices, the dependable wage increase, the rise in profits, the adjustment of retirement income, which were supposed to make inflation easy to live with, have failed to materialize. Instead we have had rising social tensions, strikes of normally unmilitant groups such as teachers and firemen, and dissatisfaction of even those whom one might suppose to have remained ahead of the game. Stable prices clearly are part of a desirable economic environment, inflation clearly is a form of economic pollution to which we must give increasing attention as we must to other forms of environmental pollution of which we are now becoming aware.

Inflation can and will be curbed if we follow a moderate instead of a sharply expansionary fiscal policy. It has taken longer than had been anticipated to reach even modest success so far. Expectations created in four or five years are not quickly broken, particularly when those who hold them can see their suspicions confirmed by the resurgence of expansionary policy proposals. But if we do not succeed this time, surely a second effort will be even more difficult and costly.

High Employment

If we want stability, and particularly if we want stable high employment, decisions during the present phase of incipient expansion will be crucial. If we err, we are in some danger of being trapped into what in Europe, and particularly in England, has come to be known as a stop-go policy. The common pattern of stop-go policies -- in some countries more stop than go -- has been a rapid expansion leading to inflation, often combined with heavy payments deficit, followed by sharp restriction, and thus continued oscillation between the alternative evils of inflation and stagnation. In some countries, this has culminated in a process or condition known as stagflation.

The events of 1965-67 were the first example of the dangers of a stop-go sequence. Overheating, as you will recall, began in mid-1965. In 1966, incipient inflation was curbed by drastic monetary restraint. The medicine worked, but at the cost of economic slowdown. When that became apparent, restraint was replaced by hectic monetary expansion, to be followed just as quickly by faster inflation and, incidentally, still higher interest rates.

How can we avoid falling into this trap? The answer is that the economy must approach the area of high level operation slowly, rather than at great speed. It must, as it were, phase into this area, instead of slamming into it. Otherwise, there will be renewed overheating, renewed need for strong restraint, and renewed danger of another cycle.

Forecasts

The precise fiscal and monetary policies appropriate to attain these objectives will depend, of course, on the amount of steam that the economy tends to generate on its own. Present prognostications in this regard are reasonably reassuring. Most forecasts for GNP in 1971 are running in the range of about $1,040-50 billion, implying a rate of growth of 6-7 percent, of which something like 2-3 percent might be real growth and 3-4 percent increase in prices. In contrast, last year the range of forecasts, leaving out the grossest extremes, was of the order of perhaps $30 billion, involving rates of growth of 3.5-7.0 percent. Noteworthy is not only the moderate character of the expansion now forecast, but also the much greater concentration of the forecasts. The latter fact of course reflects the point I made at the beginning, that visibility ahead becomes a little better once the direction of the economy is reasonably well established.

The rate of expansion forecast would meet the requirements for a policy aiming at lasting stability at a high level rather than at the quickest possible "go" to that level to be followed quite likely by a renewed "stop." The economy may surprise us, and the forecasts may miscarry. If that should seem about to happen, policies would have to adjust to correct it. I hold no brief for any particular policy independent of economic developments.

Interest Rates

From the point of view of financial markets, however, the course of events and the policies projected leave open several questions. What will be the demands upon capital markets under such conditions and policies? What kind of pressures will develop upon interest rates? Will the situation of the capital markets be more like that of the early sixties, a period when the economy was moving back, rather slowly, toward high level operation while interest rates were low and stable? Or will it be more like the second half of the 1960s, when the economy much of the time was at or above capacity, with interest rates high and unstable?

Almost everybody agrees that the level of interest rates is unlikely to resemble that of the early 1960s. But whether we have to anticipate a repeat performance of the last few years is an open question which I, for one, would answer in the negative. The recent experience was influenced by several factors that hereafter can be avoided by appropriate policy. Let me briefly examine them.

Very high interest rates have been produced by a combination of heavy demands for loanable funds, inflation, and a very tight monetary policy. Inflation alone can hardly have been responsibl -- we had high rates of inflation during part of the 1940s and 1950s, with nothing like the interest rates we have seen recently and hopefully have seen the last of.

If inflation is reduced, nevertheless, as I expect it to be, this should have a favorable effect upon rates. There can be little doubt that an inflation premium is now built into interest rates, even though it is only one of several factors. Lower expected inflation will mean lower rates, other things equal.

At lower rates of inflation, moreover, a given policy of the Federal Reserve with respect to the growth of the monetary aggregates, allowing them to increase at 5 percent or some other reasonably stable rate, will be less restraining. Recently part of the growth of the money supply has simply been absorbed by inflation. The growth of the money supply in real terms has been very small, at times negative, and desirably so, given the need to restrain inflationary pressures. Unless monetary policy is changed, a lower rate of inflation automatically means a higher growth in the real money supply. This, other things equal, would also exert some downward effect on interest rates.

Sources of Demand

High demands for loanable funds are almost certain to contin They will be particularly strong in the long-term area. Five kinds of demand are likely to converge upon this area:

1) the regular needs of a growing economy for business investmen housing, consumer credit, and state and local capital spending,

2) certain pent-up demands of the same kind that were postponed during the recent financial tightness, especially in housing and in state and local finance,

3) the refinancing needs of corporations seeking to fund short-term debt into long-term debt,

4) the demands emanating from Federally assisted credit programs, which to some extent respond to the same needs that are listed under 1), 2), and 3) but can be statistically separated out, and

5) any demands that the Federal Government may make for the financing of a deficit.

I shall not undertake to put dollar figures to each of these, in any event partly overlapping, categories. People who have tried to do this tend to arrive at the conclusion that the country faces an excess demand for long-term funds, vulgarly referred to as the coming capital shortage. I shall merely try to comment on some aspects of the five categories of demand that have a particular bearing upon interest rates and upon the market for tax exempts.

Deficits

You will note that the last two categories of demand -- Federally assisted credit programs, and financing of the Federal deficit -- are quantities that, theoretically at least, can be controlled by the Federal Government. In addition to controlling inflation, therefore, the Federal Government can help to ease a capital shortage by ending its deficit, perhaps running a surplus, and by restraining its assisted credit programs. With respect to the burden represented by the Federal deficit, it is often said that a deficit resulting from a shortfall of revenues owing to slow growth of personal income or decline of corporate profits is less inflationary than one resulting from rising expenditures. This is correct. At the same time, however, whether the financing of such a relatively less inflationary deficit adds importantly to the burden on the capital market depends on the kind of monetary policy that is being pursued. In past periods of deficits resulting from stagnant revenues, the Federal Reserve typically has pursued a policy of accommodating the Government. Interest rates during such periods typically have been kept stable or declining, while the money supply was allowed to expand. I am speaking here, not of the practice of so called "even keeling" that may accompany particular financings, but of the broad trend of monetary policy and monetary flows.

Under the new Fed policy which gives greater weight to the monetary aggregates, this is not necessarily the case. The Fed sees to it that the money supply expands at a certain rate. This is its contribution to the supply of funds. If the Government borrows in the market, there is that much less available for other borrowers. The Fed can make no additional contribution, if it operates by these rules. Thus, the Federal deficit matters as far as the market is concerned, regardless what caused it. It may not be inflationary, in fact it will be less inflationary under the new procedure than under the old. But while under the old procedure it did not greatly affect the market, it does under the new.

Credit Programs

Turning next to the Federally assisted credit programs, it may be a euphemism to say that they are "controllable." Let us say that the Federal Government could and definitely should develop means of controlling them. The important fact here is their financing. I am sure you are familiar with many of these programs -- Fanny Mae, the Federal Home Loan Banks, the farm credit agencies, as well as Federally guaranteed loans, such as for public housing and urban renewal, and non-guaranteed loans with Federal interest subsidy, such as for college housing and academi facilities. One way of looking at the programs is to say that they are fundamentally Government loans and should come from the Federal budget where they would have to be covered by additional taxes if they are not to add to Treasury financing needs. Another way of looking at them is to say that they represent a special sector of private credit demands, in which case they must remain a burden on the capital market.

In any event, one must bear in mind that the incremental demands these programs make is less than their total amount, because in the absence of Federal assistance at least part of the expenditures could probably be financed independently by the beneficiaries. It has been estimated that something like one-half to two-thirds of the total is incremental, i.e., occasional spending that would not occur without Federal assistance. Since for the fiscal year 1971 these programs are budgeted at over $20 billion, the incremental impact on capital markets is substantial. If the Federal Government were to cut back these programs drastically -- which is not necessarily desirable -- or, equally unlikely, to cover them with tax revenues, total demand on the capital market would be reduced correspondingly.

The real issue, for the moment, is how to keep the programs from growing. The Congress evidently feels that it has discovered a costless source of off-budget -- businessmen might say off-balance sheet-financing. Even when there is a subsidy, only a small part of the total cost shows up in the current year's budget. Unfortunately, the procedure rests upon erroneous assumptions concerning the nature of the capital market.

Consider an instructive if fanciful example. Suppose Congress decided to help people buy Cadillacs. Various techniques might suggest themselves, all of which have their counterpart in existing arrangements in the capital market. The buyer could be offered a fixed subsidy or guarantee. Or the purchase price could be made tax deductible. Or a subsidy could be paid directly to the supplier, perhaps by making the profit tax exempt. The result would always be the same: the demand for Cadillacs would rise. But here the resemblence to capital market subsidies would end. If the demand for Cadillacs were to rise, General Motors would step up production, and the new customers as well as all old would get their cars. Not so in the capital market. When the demand for loanable funds rises, thanks to Federal assistance of one sort or another, the supply does not necessarily rise. Particularly sub-markets may draw funds from other markets. But the total supply -- if we want to avoid inflationary bank financing -- can rise only if savers respond to higher interest rates by stepping up their rate of saving. In the past there has been considerable doubt among economists whether savers do this, certainly whether they do it on a clearly observable scale. Thus, instead of everybody who wants to borrow being able to get his money, the interest rate goes up and some borrowers are squeezed out. All that happens is some redistribution of available funds. It is possible, and indeed likely, that those whom Congress wishes to benefit, are in greater need than those whose demands remain unsatisfied. But the principal result nevertheless is to reshuffle funds, not to increase them. I might add that the intuitive realization that savers do not seem to respond by increasing their saving and thus rendering a service in return for higher interest rates may have something to do with the widespread feeling against high rates.

Funding

Finally a word about the demand for long-term funds that originates from corporate funding of short-term debt. We see this process underway now at a great rate. And if recent corporate misadventures should have induced many treasurers to want to return to the more conservative balance sheet ratios of the early sixties, the process could go on for a long time. But of course it differs from the other types of demands for long-term funds in that it does not take resources out of the economy, nor even out of the financial markets as a whole. Short-term debt is being repaid. Someone has idle funds. Given the flexibility of our financial intermediaries, it is likely that at least part of these short-term funds will find their way to the long-term market, if there is an attractive rate differential.

In short, while there will be strong demands in capital markets far into the foreseeable future, there will be compensating factors, and hopefully periods of relief from high rates. In particular, there will be opportunities for adopting public policies that will reduce the pressures, if we will seize them. The volume of financing should be high, and your group should have no reason to complain of lack of activity. It will be a rewarding period for the saver, the supplier of funds, provided we succeed in controlling inflation.

I have a colleague who likes to be rewarded. He looks glum whenever someone mentions that the stock market or bond market has gone up. I used to think it was because he owned no securities One day he disabused me. "I buy all the time," he said, "stocks and bonds, the same dollar amount each month. The cheaper they are, the more I buy. I can't for the life of me understand why you people want the market to go up."

oOo

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

452

FOR RELEASE UPON DELIVERY

REMARKS OF THE HONORABLE EDWIN S. COHEN
ASSISTANT SECRETARY OF THE TREASURY FOR TAX POLICY
BEFORE THE
INVESTMENT BANKERS ASSOCIATION OF AMERICA
6TH MUNICIPAL CONFERENCE
MISSION ROOM, CONVENTION CENTER, SAN ANTONIO, TEXAS
THURSDAY, OCTOBER 15, 1970, 1:45 P.M., CDT

I am delighted to have this opportunity to speak to you today about some of the federal income tax questions involving state and local bonds, for which the Treasury Department has been seeking equitable and practical solutions.

We at the Treasury are fully conscious of the vital importance to the states and localities of their capacity to issue tax exempt obligations to finance their ever-mounting needs for capital improvements and other programs for the benefit of their citizens. We recognize the benefits and freedom of action which this power gives to our state and local governments and we have no desire to impede its exercise for appropriate governmental purposes.

Let me emphasize that while many suggestions were made in many quarters in connection with the tax reform legislation that occupied our attention throughout the year 1969, this Administration did not recommend to Congress, either formally or informally, publicly or privately, any limitation on the right of the states or localities to issue tax exempt obligations for such public purposes.

The existence of tax exempt interest in the hands of individuals or corporate investors does, however, create problems of equity of the federal income tax structure which have been commented upon many times. Treasury has the obligation, we think, to take such steps as it can to see that the benefits of the tax exempt privilege redound to the benefit of the public programs of states and localities in the form of lower interest charges and not primarily to the benefit of private persons in the high income tax bracket.

We are anxious to see that the tax exempt privilege is not abused or unreasonably extended beyond its traditional bounds of use for appropriate governmental purposes. One type of such abuse that arose and snowballed into a serious problem involved industrial development bonds, as to which Congress passed restrictive legislation in the Revenue and Expenditure Control Act of 1968. Another involved so-called "arbitrage bonds," regarding which the Congress legislated as a part of the Tax Reform Act of 1969.

Both of these statutory provisions contained generalized language that require the issuance by the Treasury Department of significant interpretative regulations. We have been engaged for some months in an effort to produce fair and practical regulations that will represent a reasonable construction of the statute. We expect to announce these regulations shortly, and in a few moments I shall describe to you some of the paths that we expect the regulations to take.

Before doing so, I should like to comment briefly on the problems which developed some months ago regarding deductibility under section 265(2) of the Internal Revenue Code of interest paid by a taxpayer on "indebtedness incurred or continued to purchase or carry" tax-exempt state and local obligations. This provision has been in the Internal Revenue Code for many years and its vague language is difficult to construe and to apply in specific cases. It is obvious that if an investor borrows money with which to buy tax exempt obligations, he could obtain an unwarranted advantage if he could deduct the interest payments against otherwise taxable income while the interest on the state obligations he purchases with the borrowed funds would be free from tax. If there were not some provision in the statute to prevent such a maneuver, a taxpayer in the 70 percent bracket could borrow money at 8 percent, deduct the interest against his top bracket income, use the proceeds of the loan to buy 5 percent tax-exempt obligations, and produce a net after-tax profit. At the same time it is equally clear that the statute does not intend to disallow interest paid on money borrowed merely because the taxpayer at the same time is the owner of municipal bonds.

There have been numerous cases in the courts in which the application of this statutory provision has been involved in specific instances. In recent years some of the court decisions have indicated a stricter application of the rule than occurred at an earlier period. As these recent court decisions were handed down,revenue agents in auditing returns in various parts of the country began to raise the question of the application of the provision in situations in which it had not traditionally been applied, including some cases involving banking institutions. Let me assure you that this did not occur through any concerted effort by the National Office of the Internal Revenue Service or the Treasury Department.

The situation required a careful review of the matter as a policy question at the National Office and the Treasury Department. We studied the matter in considerable depth, met with many interested parties, including representatives of state and local governments, banks and other financial institutions, and in July published Revenue Procedure 70-20 in which we laid down rules that we thought were reasonable and practical under the statute. In broad terms, the guidelines state that section 265(2) generally is not applicable to interest paid by banks on short-term indebtedness which they incur in the ordinary course of their day-to-day business. We understand that the Revenue Procedure has provided generally acceptable guidelines and we are gratified that this has been the case.

Let me turn now to the matter of regulations which we hope soon to issue with respect to industrial development bonds and arbitrage bonds.

Industrial Development Bonds

The first IDB's, I understand, were issued in 1936. By 1950, only two states were permitted by state statute to issue such bonds. In 1954 the Treasury published a ruling which held that the interest on these bonds was exempt from tax. By 1960 twenty-three states had authorized the practice. In the spirit of competition, as well as in self-defense, a total of forty-four states had authorized the use of IDB's by 1967, including large industrial states such as Ohio, New York, and Pennsylvania.

From $8.8 million of IDB's in 1952, the total new issues had increased to $84.3 million in 1962, and by 1968 it had reached $1.5 billion. In 1962 these issues accounted for one percent of the dollar volume of all tax-exempt bond issues; by 1968 that figure had increased to 9 percent.

The benefit of such financing seems also to have been transferred to large corporations as the average issue rose from $366,000 in 1957 to $7.8 million in 1967. (A typical municipal issue in the same period had risen from $1 million to $2.5 million.)

The revenue loss potential was estimated at $200 million by 1970 and over $1.5 billion by 1975. The problem became a matter of serious concern to the Treasury and to the Congress.

On March 6, 1968 the Treasury announced that it would publish regulations reconsidering its position on the tax exemption of IDB's, and less than three weeks later the proposed regulations were released.

The Senate reacted immediately by adding a rider to the then pending Revenue and Expenditure Control Act of 1968 to bar removal of the tax exemption until Congress had an opportunity to act. Two days later the Senate acted by adopting an amendment to the pending bill to require continuation by the IRS of the rules applied prior to the announcement of its new regulations. A different provision, however, emerged from the Senate-House Conference Committee, and it became law, without hearings and with only the conference report to aid as legislative history in the interpretation of the new statute in regulations.

Under the statute, an obligation is considered an industrial development bond, the interest on which is not tax exempt, if in general two conditions exist --

(1) all or a major portion of the bond proceeds are to be used, directly or indirectly, in the trade or business of a taxable person, and

(2) repayment of the bonds is either secured by, or to be derived from payments in respect of, property used in the business of a taxable person.

In a very general way, this sets forth an underlying concept that in reality it is the credit of the business user which gives rise to the borrowing rather than the credit of the governmental unit. However, the scope of these statutory provisions is very broad, and the generalization I have stated cannot always be relied upon. It is clear that the statute goes well beyond the familiar case of leasing an industrial plant constructed with the proceeds of the bond issue at a rental designed to pay interest and principal on the bonds.

The statutory definition of an industrial development bond would, for example, include some bonds issued to finance projects traditionally considered governmental functions, such as airports and other transportation facilities. Accordingly, the breadth of the statutory definition is limited by six specific "exempt activities." If substantially all of the proceeds are used for one or more of these six exempt activities, even though used in the business of a taxable person, the bonds are exempt. These statutory exempt activities are:

(1) residential real property for family units,

(2) sports facilities,

(3) convention or trade show facilities,

(4) airports, docks, wharves, mass commuting facilities, parking facilities, or storage or training facilities directly related to any of the foregoing,

(5) sewage or solid waste disposal facilities or facilities for the local furnishing of electric energy, gas, or water, or

(6) air or water pollution control facilities.

All of these activities implicitly include some element of benefit to the general public which gives them some relationship to governmental activity.

In January of 1969, shortly before the new Administration took office, proposed regulations were issued under the 1968 industrial development bond legislation. After reviewing those proposals and the written comments which were received, we decided to redraft substantially the proposed regulations, primarily in an effort to make them more specific and thus more helpful. The redraft is now virtually completed and will shortly be published in the Federal Register. The regulations will be in proposed form once again in order to allow an opportunity for public comment on the revision. The new regulations will contain many more examples which we hope will prove helpful.

Let me review some of the more significant changes we intend to propose. In order to speak in more concrete terms, I am going to discuss the old and new regulations as they will apply to the power industries. These industries are vitally concerned with the industrial development bond legislation because of the overlap of public and private business activity which they involve. Some of our most helpful discussions in developing the principles to be followed in the regulations have been held with the representatives of public and private power.

I would emphasize that the industrial development bond provisions do not affect bonds issued to finance purely public power projects, such as a power facility to be owned and operated by a city, county or state for the supply of power to the general populace (including both individuals and businesses) in the areas served by the governmental unit. There has been considerable confusion on this point. Facilities which are owned and operated by a public authority to supply power to the general populace are not used in the business of a taxable person; they are used in the business of the public authority in supplying power. It is only where a "major portion" of the proceeds of the issue is used in the business of a taxable person that the bonds may become industrial development bonds. There is, of course, a specific statutory exception for facilities for the local furnishing of electric energy, gas or water, but the scope of that exception is not presented as a problem unless, as an initial matter, a major portion of the bond proceeds is used in the trade or business of a taxable person.

The regulations, as originally proposed, contained a 25 percent "major portion" test. That is to say, if less than 25 percent of the proceeds of the bond issue is used to construct facilities for, make loans to, or are otherwise to be employed in the business of a taxable person, the regulations provide that the issue does not meet the trade or business test and, hence, does not come within the definition of an industrial development bond. Our regulations will retain the 25 percent "safe haven" rule for the term "major portion."

However, as a result of numerous meetings with representatives of the power industries, we have considered the practical problem that anticipated population growths and the need for long-range planning may require a wider margin of non-public use of the power facility for an initial period. Accordingly, the new proposed regulations will grant greater leeway where the objective facts demonstrate that the purpose of a public utility in building a facility larger than necessary for the immediate demands of the general populace is to meet anticipated growth of the area served. Thus in such a case, even though in the interim period somewhat more than 25 percent of the facility constructed with the bond proceeds is used in the business of a taxable person, such as a private power company, tax exempt financing may be used. This more liberal rule will be applicable where the governmental unit retains the right to recover the use of the excess power from the private user as and when the public it serves needs the power. The rule will apply, however, only if reliable projections of the growth of the area indicate that substantially all of the output will in fact be needed by the public authority within a reasonable period of time. One-half of the useful life of the facility, or, if shorter, 15 years, would be considered a reasonable period of time.

We have also considered the jointly-financed power facilities which have become so common in the Northwest.

The public utility and the private utility engage in a common effort so that a facility is constructed larger than that which either of them could finance or use on its own. The advantages resulting to both of the parties from the economies of size are significant. The new regulations will make it clear that such joint efforts present no problems with respect to the bonds issued to finance the public portion of such a joint project, provided that the public issuer is in fact the user of its proportionate part of the power produced by the facility. In other words, for purposes of applying the industrial development bond statute, the portion of the facility financed by the public user will be treated as a separate facility and tested under the general rules; if it qualifies when separately considered, the bonds issued to finance it will be tax-exempt. The fact that the public user's "facility" is in actuality an undivided interest in a larger facility will not cause a loss of the tax exemption.

These particular points are illustrative of efforts we are making in the revised regulations to make these statutory provisions work in a reasonable and realistic way in actual practice.

Combined issues.

Another point which has been frequently raised is the extent to which an issuer may finance several kinds of facilities without causing the bond issue to be classified as industrial development bonds. Specifically, under the 1969 proposed regulations no guidance was furnished with respect to the possibility of proposing a single bond issue for the purpose of financing schools, or a courthouse, or other similar governmental project, and also financing an "exempt" activity such as an addition to an airport or an industrial park. The economy of proposing one bond issue for many purposes is obvious, and we see no reason why the policy of the statute is adversely affected by permitting such combined issues.

We have found it necessary, however, to formulate rules which will permit such combined issues only if the issuer meets certain conditions that insure that the statutory rules cannot be avoided. The terms of the issue must specify the amounts which will be used for each purpose, for example by a designating of separate series for each purpose.

These types of issues will, however, require a rather broad rule governing ownership of the bonds by a "substantial user." When a bond is issued for an exempt activity, the statute provides that interest on the bond is not exempt while a "substantial user" of the exempt facility owns the bond. Therefore, in the case of combination issues, if a substantial user of any of the facilities financed with the proceeds of the issue holds any of these bonds, the interest on the bonds so held will become taxable to him.

Local Furnishing.

Bonds issued to finance facilities for the furnishing of electric energy, gas or water which are to be used in a trade or business of a taxable person would be classified as industrial development bonds, but they may nevertheless be tax exempt if the facilities in question are within an exception for bonds issued to finance facilities for the "local furnishing" of these public services.

A difficult interpretative question which has arisen in connection with this exception is the meaning of the word "local." The legislative history is uncertain and indicates only that the exception does not include facilities "for regional or broader transportation of gas or water by pipeline or long-line transmission of electric energy." The January 1969 proposed regulations emphasized the fact that, in order to qualify, the facilities must serve the needs of the general populace of an area, without specifically placing any limitation on the extent of the area which could be served.

We struggled with the interpretation of this exception and the various positions which were urged upon us. The Joint Committee on Internal Revenue Taxation of the Congress advised us of their understanding of the Congressional intent as to the scope of the exception. The Joint Committee consisted of essentially the same Members of Congress who constituted the Conference Committee when the industrial development bond legislation was passed in 1968.

I am sure many of you have seen a copy of the letter to Secretary Kennedy dated March 16, 1970, in which Senator Russell Long, as Chairman of the Joint Committee, stated the unanimous view of the Committee that "this phrase was not intended to include the regional supplying of gas, water or electric energy, but, instead, . . . it was intended that it be limited primarily to a locality, meaning in no event more than a municipality, or one county, or at most two contiguous counties."

We think the Joint Committee's position represents a reasonable interpretation of a difficult statutory provision. By its very nature, the provision requires the drawing of an arbitrary line between those facilities which will fall within the exception and those which will not. We recognize that a geographical limitation may reach some illogical results; facilities serving two counties in a populated sector can be many times the size of facilities serving two counties in rural areas. Nevertheless, the word "local" must have been intended by Congress to have some meaning and we do not have unlimited discretion in interpreting it. Our responsibility in issuing regulations is to follow Congressional intent. We feel constrained to follow the interpretation urged upon us by the Joint Committee.

Arbitrage Bonds

The Tax Reform Act of 1969 denies tax exempt status to a state or local obligation which is an "arbitrage bond." As you know, the arbitrage problem has concerned the Treasury for a number of years. In 1966, the Internal Revenue Service announced that it would not issue advance rulings covering two situations --

(1) advance refundings in excess of five years where, during the interim, the proceeds are to be invested in taxable obligations, and

(2) "pure" arbitrage cases where a substantial part of the proceeds of an issue are to be invested only in taxable obligations.

Responding to the belief that arbitrage bonds were about to become widespread either by avoidance of the "no ruling" areas or by issuance of obligations without a ruling, the Ways and Means Committee inserted in the Tax Reform Act of 1969 a very general provision that would have permitted the Secretary of the Treasury latitude to determine the kinds of obligations that are to be classified as prohibited "arbitrage" obligations. When the bill was pending in the Senate, more specific language was inserted by the Finance Committee and retained in the statute as finally enacted. Nevertheless some broad phraseology is used in the provision and the Treasury is authorized to issue regulations interpreting it.

The Act defines an arbitrage bond as any state or local obligation "all or a major portion of the proceeds of which are reasonably expected to be used" to acquire taxable obligations or securities which will yield a rate of return that is materially higher than the yield on the issued obligations. The basic problem we face is to prescribe rules to test whether the yield on the acquired obligations is "materially higher" than the yield on the issued obligations. If the test is met, the obligation falls within the definition of an arbitrage bond.

If the obligation is an "arbitrage bond" as so defined, it still may be tax exempt if the case can qualify under either of two significant special rules. First, there is a provision permitting investments during a "temporary period" before the proceeds of the bond issue are expended; and, second there is a provision permitting the investment of part of the proceeds in a reserve or replacement fund reasonably required to market the bonds.

Two of the most important questions under this statute appear to be: (1) What is a "materially higher" yield? (2) What is a"temporary period"?

In a temporary regulation which we expect to publish shortly, we expect to provide a definition of the term "materially higher" as a spread between the yield of the governmental obligations and the yield of the acquired obligations of more than one-half of one percentage point. Thus a safety area of one-half point is provided.

The temporary regulation will contain detailed rules for the computation of yield. In general, these rules will incorporate generally accepted methods of computing yield, and take into account in the usual way any premium or discount on the obligations. There is, however, one significant exception. The yield of the issued governmental obligations may be adjusted upward to reflect the expected administrative costs of issuing, carrying and repaying the bonds; and the yield of the acquired obligations may be adjusted downward to reflect the expected administrative costs of purchasing, carrying and selling or redeeming the obligations. Mechanically, the administrative costs in connection with issued obligations are treated as bond discount and the administrative costs in connection with acquired obligations are treated as premium.

The yield of both sets of obligations, adjusted to reflect such costs, is referred to as the "adjusted yield." Since adjusted yield may be used in comparing the rates of return of the issued and acquired obligations to determine if the "materially higher" test is met, any obligation may be acquired by a governmental unit without an arbitrage problem if the adjusted yield of the acquired obligations does not exceed the adjusted yield of the issued obligations by more than one-half of one percentage point. Such an issue will simply not fall within the definition of an arbitrage bond. The "temporary period" problem and other questions raised by the statute will not be presented in the case of such an issue.

In addition, these temporary regulations will resolve problems raised by the application of the statute to bonds issued to finance governmental programs which, by their very nature, require the acquisition of other obligations. Student loan programs and programs for the support of low and moderate income residential property are illustrations of governmental programs of this type.

In such governmental programs the acquired obligations, since they are taxable, will bear an interest rate higher than that of the issued obligations. Some of the programs are secondary market operations that involve the acquisition of student loans or low-income mortgages from banks and other financial institutions. Other programs involve direct loans by the governmental unit to the students or home owners.

We have been very concerned about these situations. It has been suggested that student notes and similar types of obligations should simply be excluded from the definition of the term "obligations" as it is used in the statute. We have some difficulty with this as a matter of statutory interpretation. It has also been urged upon us that where the primary purpose of the program is not to make an arbitrage profit, then the statutory provisions should simply not apply. While we might agree with that as a general principle, no such interpretation can be gleaned from any reading of the statutory provision or legislative history.

We do believe, however, that we have sufficient flexibility in the statute to provide some liberalized rules applicable to such governmental programs so that most obligations issued by state and local governments to finance these programs will not be classed as arbitrage obligations.

The temporary regulations, therefore, will provide that in the case of these qualified governmental programs that require the acquisition of obligations, if the "adjusted yield" of the acquired obligations (student notes, etc.) does not exceed the "adjusted yield" of the issued obligations by more than one and one-half percentage points, the bonds are not arbitrage bonds within the meaning of the statute.

The adjusted yield concept, which I described earlier, allows all of the administrative expenses surrounding the issuance and redemption of governmental obligations and the purchase and sale of the acquired obligations to be taken into account, and thus to reduce the spread between the rate of yield on the acquired obligations and the rate of yield on the issued obligations.

Moreover, in the event that the difference in adjusted yields does exceed one and one-half percentage points, the obligations may nevertheless qualify under this temporary regulation if the amounts to be obtained as a result of this difference in adjusted yields are not reasonably expected to exceed the dollar amounts necessary to pay the expenses of the governmental program, including reasonably anticipated losses resulting from bad debts.

To meet the requirements of these temporary regulations, however, the governmental program must meet certain conditions:

(1) It must be expected to result in the making of new or additional loans (by the governmental unit or by others) to a substantial number of persons representing the general public;

(2) Under the program, the amounts received with respect to the acquired obligations must be used to pay principal and interest on the governmental obligations or to provide for administrative and other costs (including anticipated losses of the program)

directly related to the program, to make additional loans for the same general purpose as those specified in the program, or to retire the governmental obligations; and

(3) The program must require that the bank or other person from whom the acquired obligations are to be purchased will not, pursuant to any formal or informal arrangement, use the proceeds (directly or indirectly) to purchase the governmental obligations.

Of course, the proceeds from the governmental obligations may not be invested in obligations other than the student notes or mortgage notes for more than a "temporary period." This is a general requirement of the arbitrage bond statute. If, for example, it is expected that the proceeds are to be invested in U. S. Government obligations for a substantial period of time before the proceeds are to be used to purchase student notes, the governmental obligations could not qualify under this aspect of the temporary regulation.

We believe that these regulations will permit the continued tax exempt financing of most traditional governmental programs. From what we have observed, the allowance of a one and one-half point spread, after taking into account through the adjusted yield concept the direct administrative expenses both with respect to the governmental obligations and the acquired obligations, will remove possible impediments to such programs that might otherwise have been created by the arbitrage bond statute.

We recognize that the temporary regulation will not resolve all of the uncertainties of the statute. Determining what is to be "reasonably expected," as is required under the statute, will not be an easy matter. For example, estimating expenses which are far in the future may prove difficult. These temporary regulations will contain no specific help in this regard; but we are studying methods to simplify, in a practical way, these determinations in later regulations.

Another problem which is not covered in the temporary regulations and which I mentioned earlier, is the definition of the phrase "temporary period." We have devoted much effort to resolving this question in the temporary regulations, but found that we could not do so without delaying further the issuance of the regulations. We expect that rules regarding the "temporary period" question will be the subject of a separate temporary regulation, hopefully to be issued in the near future.

As you can readily observe from this brief review, we have had considerable difficulty with broad phrases of the Internal Revenue Code in our effort to produce a set of sensible rules that will not restrict the normal functions of state and local governments but will provide a reasonable restraint against cases of abuse of the tax exempt privilege. The words of the statute are not easy to interpret. As we have struggled with them I have often recalled some immortal words of Mr. Justice Oliver Wendell Holmes. In one of the early income tax cases [Towne v. Eisner, 245 U.S. 418 (1918)], he turned aside a technical argument of statutory construction by saying:

> "A word is not a crystal, transparent and unchanged, it is the skin of a living thought and may vary greatly in color and content according to the circumstances and the time in which it is used."

Consistent with his conclusion, we are trying in the regulations to apply the statute to carry out a living thought according to the circumstances and the changing times in which we live and progress.

he Department of the TREASURY NEWS

SHINGTON, D.C. 20220 TELEPHONE WO4-2041

ATTENTION: FINANCIAL EDITOR

FOR RELEASE 6:30 P.M.,
Thursday, October 15, 1970.

RESULTS OF TREASURY'S OFFER OF $2.5 BILLION OF JUNE TAX BILLS

The Treasury Department announced that the tenders for $2,500,000,000, or thereabouts, of 244-day Treasury Tax Anticipation bills to be dated October 21, 1970, and to mature June 22, 1971, which were offered on October 8, 1970, were opened at the Federal Reserve Banks today.

The details of this issue are as follows:

Total applied for	- $5,577,625,000	
Total accepted	- $2,500,185,000	(includes $370,475,000 entered on a noncompetitive basis and accepted in full at the average price shown below)

Range of accepted competitive bids:

High	- 96.001	Equivalent rate of discount approx.	5.900%	per annum
Low	- 95.934	" " " " "	5.999%	" "
Average	- 95.954	" " " " "	5.970%	" " 1/

(38% of the amount bid for at the low price was accepted)

Federal Reserve District	Total Applied For	Total Accepted
Boston	$ 221,580,000	$ 190,780,000
New York	2,158,540,000	475,540,000
Philadelphia	261,000,000	118,000,000
Cleveland	281,150,000	127,650,000
Richmond	75,015,000	34,915,000
Atlanta	144,930,000	69,930,000
Chicago	627,385,000	373,835,000
St. Louis	109,550,000	66,890,000
Minneapolis	394,425,000	315,495,000
Kansas City	130,810,000	94,710,000
Dallas	297,545,000	77,245,000
San Francisco	875,695,000	555,195,000
TOTAL	$5,577,625,000	$2,500,185,000

1/ This is on a bank discount basis. The equivalent coupon issue yield is 6.26%.

Department of the TREASURY

STON, D.C. 20220 TELEPHONE WO4-2041

NEWS

467

October 14, 1970

FOR IMMEDIATE RELEASE

CHANGE OF CLOSING HOUR FOR RECEIVING SUBSCRIPTIONS TO TREASURY NOTE OFFERINGS

The Treasury Department today called attention to changes it is making in the time its books will be open for subscriptions in future offerings of Treasury notes and bonds.

Until now the practice has been to keep the books open for subscriptions up to midnight of the last day specified in the offering announcement, and to accept subscriptions postmarked before that time.

Under the new practice -- which is similar to that now used in accepting tenders for Treasury bills -- the subscription books will be open until the day and hour (probably 7:00 p.m. local time) specified in the offering announcement, but to be timely subscriptions must be received by a Federal Reserve Bank or Branch or by the Treasury by the specified time. Subscriptions postmarked before midnight of the preceding day will, however, be deemed to have been received by the specified time.

The Treasury said that the new practice will enable it to know - and to announce - the results of a financing earlier and with greater precision. This knowledge is particularly useful when more than one financing operation may have to be compressed into a limited period of time. This change in procedure will also minimize revisions in the early published results of financing operations -- revisions which have resulted in part from mail delays.

he Department of the TREASURY

GTON. D.C. 20220 TELEPHONE W04-2041

NEWS

468

FOR RELEASE 8:00 PM, CDT (9:00 PM, EDT)

ADDRESS BY THE HONORABLE CHARLS E. WALKER
UNDER SECRETARY OF THE TREASURY
BEFORE THE 43RD ANNUAL CONVENTION
OF THE NATIONAL BANKERS ASSOCIATION
DINNER MEETING, STOUFFER'S RIVERFRONT INN
ST. LOUIS, MISSOURI
FRIDAY, OCTOBER 16, 1970, 8:00 PM, CDT

For minority banks, the 1970's can be a dynamic decade of great benefit to the publics you serve. I am proud to be here tonight representing an Administration that plans to play a meaningful part in making this optimistic outlook a reality.

From the outset, President Nixon and his Administration have been committed to the goal of encouraging the creation and development of minority business enterprises. We have launched many programs to achieve this goal.

Yet, we are aware that the prospects of establishing or expanding a business are dim indeed without the support--both financing and counseling--of a bank. This is true of the banking system as a whole, and I believe more banks are taking an active interest in minority financing as a result of the efforts of the Urban Affairs Committee of the American Bankers Association.

Minority banks, however, will be under particular pressure to work with new and emerging small businesses. These pressures will be great, but so will the prospects and promises.

During the 1960's we witnessed ever-increasing expectations in the fields of civil rights and economic rights. The phrase, "a piece of the action," became more than a slogan or catch phrase--it summed up the hopes and aspirations of many of those in minority groups who wanted to work with and through the existing system.

These mounting expectations naturally gave rise to increased loan demand at minority banks. It is noteworthy that over two-thirds of the member banks in the National Bankers Association were organized in the past decade to help meet this growing demand.

The creation of these new banks followed the most basic of all tenets of a free enterprise system--find a need and fill it.

The new banks coming into being and older ones trying to expand all ran into three fundamental problems: the need for capital, the need for talented and trained management and staff, and the need for deposits--the raw material of banking.

Since these problems have always existed for banks and always will, you might ask why I can be so optimistic about the future.

Let's start with the people problem--the most essential element in any organization. Because of limited opportunity in the past, there was little experienced talent available for the management of new minority banks. Many of the senior personnel in these new banks had to be drawn from outside the field of banking.

This problem was no secret. It was recognized two years ago by your association when you first met with the ABA's Urban Affairs Committee. A major suggestion for cooperation between the two groups was that a middle-management training program be established that would give mature blacks a period of intensive training in white banks. That program was put into effect in early 1969 with a first-year enrollment of 21 trainees. I understand that over half of the first class went to work in NBA banks.

Recently I was delighted to learn that the goal for this year is 50 trainees and that a recruitment drive to meet that goal is now under way.

This will add directly to the pool of financial talent available to run your banks. At the same time there are several other developments in the personnel area that are encouraging.

One is the tremendous increase in minority employment in banking that has taken place in the past few years. The figures can never keep pace with the developments because it takes so long to collect and compile them. A few years ago when the Equal Employment Opportunity Commission first released figures on minority employment in New York City, the banking industry had the best record of any white collar industry in the city. Since then the record has improved dramatically.

In addition to this expanded effort to increase total employment, there is also an aggressive campaign on the part of banks to attract college graduates who are members of minority groups.

At the start of the 1960's, several major banks began recruiting at the predominantly black colleges. The results were less than spectacular. In fact, they were disastrous. One major bank, after seven years of such recruiting, had not attracted a single application for employment.

The reasons were clear. The students did not believe they had any future in the banking business because of the previous record of employment in the industry. There was a real credibility gap.

Banking and every other industry had a real challenge to let these students know about the new opportunities that were becoming increasingly available.

One of the most productive efforts to correct this situation was undertaken by the National Urban League through its Summer Fellowship Program. Its purpose is to provide summer employment for professors from the predominantly black colleges where half of all black students in college today are enrolled. The program has many advantages. It gives the professors a chance to work in an area of their own interest and background so they can improve their own knowledge. It gives them a chance to see what types of jobs are available in various industries. And it puts them in an excellent position to advise their students on the courses that would be most helpful in preparing for employment in a particular industry.

The banking industry, through the American Bankers Association, has participated in this program for four years. It has worked with the Urban League in placing economics professors and professors of business in summer internships in major banks around the country.

Thanks to the leadership of my associate, Ed Gannon, the Federal Government participated in the program for the first time last summer. Fourteen professors worked with various departments and agencies of government. Two economists joined us in the Treasury Department.

We plan to get an early start on the program for 1971 with the idea of increasing the number of professors in the government phase of the program to a minimum of 50. These professors will be from a wide variety of academic disciplines. Arrangements are now being worked out for the government to fund this program for the coming year.

One of our visitors last summer, Dr. Henry Ponder, Vice President for Academic Affairs at Alabama A&M, was interested in getting more quantitative information on the changing enrollment patterns at the predominantly black colleges. His sample survey of 27 institutions shows some rather dramatic results. Between 1960 and 1969, total enrollment at these institutions increased by 34 per cent. Much more important, the number of undergraduates majoring in business and economics increased by 234 per cent.

In 1960, only one out of 11 students majored in business or economics. By 1965 the figures showed one out of every 9 students was selecting these fields as his major. In September of 1969 the pattern had changed to one out of every 6.

Experience in the largest of the predominantly black colleges--Southern University--was fairly typical. At the start of the decade, 7.4 per cent of the students (403 out of 5,416) were business or economics majors. In the 1965-66 academic year, this percentage had risen to

11.6 per cent (898 out of 7,750). Over the last four years of the decade, the percentage nearly doubled. In the 1969-70 academic year, 22.7 per cent of the students were business and economics majors (2,093 out of 9,222).

Southern University also provides an excellent example of the recruiting patterns that are developing at the predominantly black colleges and universities. In 1960 only 15 recruiters visited Southern University. Of these, 12 were recruiting teachers and the other three were recruiting government clerical workers. Last year over 600 recruiters made stops at Southern and these recruiters represented just about every major corporation and industry in the country. In 1960, 80 per cent of the recruiters were looking for teachers. In 1970 only 8 per cent were recruiting teachers.

These three avenues of entry--general employment patterns, college recruiting, and recruiting for special training programs--are adding an ever-increasing number of persons to the pool of talent available in the area of finance and banking.

I have dwelt quite a bit on this personnel question because it is important in many ways. If the pool of talent that is now becoming available were in existence 10 years ago, your staffing problems would not have been as great as they were. If this pool of financial talent had been available, many more minority businesses would have been established.

Not all of these people being trained in the area of finance will end up in your banks. They will not all end up in the white banks. Nor will all end up as minority businessmen. However, with the valuable background they acquire, they will be in a position to choose their own careers as entrepreneurs or as professional workers with any type of organization or institution which can use their talents.

Extensive training programs are a luxury for small banks. You cannot afford to train a large number of recruits in the hope that out of the group you will find the one or two individuals who will fit into your organization. Your best bet is to find the talent and skills you need outside your own organization.

We frequently have to do just that in government. I know the Freedom National Bank was not happy to lose a director, but we were very pleased that Judge Sam Pierce agreed to join the Treasury Department as our General Counsel this past year.

In short, the personnel picture in finance is much brighter today than it was just a few years ago. With wise selection and proper management, I think some of your people problems will be less burdensome than in the past.

I am also encouraged by the outlook for deposits in your institutions. Two programs that I have touched on--the efforts to develop minority businesses and additional job opportunities--will in the long run lead to more deposits by your present customers and will further expand your immediate markets.

Your markets will not come into full force overnight. But they do exist today and are growing rapidly. Moreover, most major banks in the nation recognize this and will be paying more attention to the cultivation of these markets in the years ahead. It is certain that competition will become more intense. But your special positions in this market should give you a distinct advantage.

I am not for one minute suggesting that you attempt to restrict your operations. By all means go where the business is. At the same time, I am sure that you are all smart enough to know that your best efforts should be matched by your capitalizing on your built-in advantages.

In addition to these normal market developments, the Administration, through a two-part approach, has committed itself to increasing deposits in minority banks by $100 million during the coming year.

As you know, the biggest part of this effort will be to encourage increased deposit flows from the private sector. This phase of the program will be carried out by Capital Formation, Inc., and the National Bankers Association under the general direction of the Commerce Department. The plans call for extensive solicitation drives for funds from corporations, unions, religious organizations, foundations, state and local governments, and educational institutions.

The second phase of this program, and one in which I am immediately involved, will concentrate on increasing the flow of Federal Government deposits into minority banks.

Our goal is a minimum of $35 million in new deposits in the year ahead.

A lot of work has already gone into our part of this program; a lot more will have to go into it in the months ahead. I have no doubt that it will succeed. Those of you who are familiar with government know that few things in government are as simple as they seem at the outset.

There are approximately 24 agencies and departments of Government, plus the United States Courts, which have limited authorizations to establish various types of banking relationships. These agencies and departments in turn break down into various bureaus and operating divisions, which in turn are divided along regional and local lines.

Our first job was to identify the types of accounts maintained by this assorted group of operations. Furthermore, we had to zero in on the accounts that were located in cities where the minority banks operate.

It took a while to move the requests for information out into the field and get the information back. We still do not have it all. However, we have enough to satisfy ourselves that the $35 million target is realistic.

As is true in any banking relationship, communications are vital in making this program work. Not communications between the bankers themselves, not communications between the banks and the Treasury Department--but communications between the bank officers and the individual at the agency or department of government at the local level who is handling the account.

These relationships will have to be developed and in many cases the deposits and business given your bank will depend on services provided. I am sure that the more service that you will be able and willing to provide, the more business you will get as new programs are funded as new needs on the part of the agency arise.

Generally, the initial contacts will be made by the government officer in control of the program approaching your bank. However, from time to time we will furnish you the names of government officers handling accounts in your community where circumstances at the moment don't permit the accounts to be placed with you because of problems such as convenience or service requirement. It could be fruitful for you to meet with such officers to discuss their banking needs and to develop proposals as to ways in which your bank could meet present or future banking needs.

We will also try to supply in Treasury a clearing house for accounts that are fully discretionary--that is, accounts that could be placed anywhere. This category consists mainly of nonappropriated funds under control of military services which are invested in certificates of deposits or other interest-bearing accounts.

For our own information, we would like to have the names of the individuals in your banks who will be most closely associated with this program and who can answer questions about possible services and accounts.

Naturally, all of the personnel in your bank should be familiar with the program and be able to refer inquiries to the proper officers in your bank.

The deposit total of $100 million during the next year may seem small in comparison to the total deposits in the banking system, which amount to $477 billion. However, it would represent a one-third increase in the deposit totals of minority banks. Regardless of how that is evaluated, it is a significant boost.

In assessing the probability of loan expansion resulting from these deposits, it would be wrong to assume that $100 million in additional funds will give rise to that amount of lending. For one thing, legal reserve requirements will have to be met. More importantly, some government accounts are highly volatile, with high turnover rates. The lodging of these funds in consumer, mortgage, or small business loans could, if the deposits were to shrink unexpectedly, result in a severe liquidity squeeze on the bank.

In addition, to the extent any one federal account exceeds the insured maximum of $20,000, Treasury regulations require that the funds be protected, dollar for dollar, with pledges of U.S. Government securities. Consequently, some of the funds deposited may have to go directly into such investments.

But these things do not mean that the program will be ineffective--quite the contrary. Not all of the government accounts will be volatile; this applies especially to those court accounts representing funds tied up, some for long periods of time, in the process of litigation.

Moreover, to the extent the new funds go directly into government securities, the earnings and reserve position of the bank will be strengthened. This will enhance your ability to attract capital which, as I noted at the outset, is one of your major problems.

Much more important, however, an examination of the asset positions of the minority banks indicates that most of them already own sufficient government securities to back up the new accounts. To the extent this is true, loans can indeed be expanded.

At this point, I must in all candor state that, although most of the minority banks appear to be doing a conscientious job in attempting to meet needs in their own special markets, the relatively low loan-to-deposit ratios that exist in a few banks raise questions as to the vigor with which they are exercising their franchises. I won't belabor this point, except to say that to the extent the minority banks request special programs to enhance their strength in lending, capital and personnel, then clearly they have special obligations to do a good job in meeting the financial needs of their communities.

As already suggested, the third major area of concern to minority institutions has been the problem of generating capital out of earnings or attracting additional outside capital to support the increased deposit and lending activities. This is a problem faced by any organization that is growing rapidly. It is a particular problem for financial institutions.

Earlier this week it was reported that the Urban Affairs Committee of the ABA is attempting to design a mechanism for increasing the capital in minority banks without diluting the community control over these institutions. Although I have not seen the specifics of the proposals, my general impression is that such a program may be very useful in improving the capital structures of your organizations.

If you can put these three elements together--manpower, resources, and capital--you will be in a position to meet your two major responsibilities. Those responsibilities are to provide financial services to the communities you serve and to do so at a profit.

If you concentrate solely on making a profit without providing service to your community, you may wake up some day and find that the community no longer considers your institution useful or necessary. If you attempt to serve the community without regard to the profit performance of the bank, the usefulness of your institution will be very short lived.

In summarizing these remarks, I would like to stress three points:

First, the basic obstacles to the growth and prosperity of minority banks in this nation are all being addressed simultaneously. With continued efforts in the areas I mentioned, your banks can indeed make the seventies a dynamic decade in the history of minority banking in the United States.

Second, most of the nation's minority banks either have gone through--or are going through--the period of acute growing pains. I can think of few other experiences that would put you in a better position to counsel, help and advise other small businessmen.

My third and final point is this: As important as adequate earnings are to the viability of your institutions, in the final analysis the success of a bank--whether it be owned by whites, blacks, Mexican-Americans, or any other minority group--cannot be judged in terms of the dollars of net profit carried onto the balance sheet from the earnings statement. In the final analysis, the success of a bank must be judged in terms of the success of the community--in terms of jobs created, homes built and sold, economic growth, the volume of loans to college students, and the general contribution to improvement in the quality of life.

If this is true of all banks, and I'm strongly convinced it is, then it perhaps applies several times over to minority banks.

Stated differently, we in the Nixon Administration are firmly convinced that what is good for your communities is also good for your banks, and we are determined to help in every feasible way to enable you to do more in meeting this worthy goal.

Department of the TREASURY

NEWS

ASHINGTON, D.C. 20220 TELEPHONE W04-2041

FOR RELEASE UPON DELIVERY

REMARKS OF THE HONORABLE DAVID M. KENNEDY
SECRETARY OF THE TREASURY
BEFORE
THE AMERICAN LIFE CONVENTION
SHOREHAM HOTEL, WASHINGTON, D. C.
MONDAY, OCTOBER 19, 1970, 10:00 A.M., EDT

Almost one year ago today under Secretary Charls Walker addressed this assembly in St. Louis. He outlined the steps that the Administration was determined to take to slow the engines of inflation. Now, I must say that the policies and programs necessary to cool an economy that had become dangerously overheated -- and to do so without precipitating a serious recession -- have not presented economic policymakers with a quiet year, tough decisions and persistence have been the order of the day.

In my opinion, our choice of orthodox economic policies applied by fiscal and monetary means -- has definitely been the right one. Their patient but persistent application has brought important progress in reducing the rate of inflation and restoring stability to the economy.

There have been some deviations from the anticipated pattern of developments and some unfortunate but temporary costs of adjustment. Yet if there is one fact that has become readily apparent from our experience in coping with inflation, it is that the longer the delay in taking effective anti-inflationary action, the greater the distortions that develop within the economy and the greater the time and costs involved in restoring balance when appropriate measures finally are implemented.

K-513

Application of monetary and fiscal restraint was necessary to take some pressure out of the vastly overheated economy we inherited at the beginning of 1969. This essential restraining action pointed up many of the economic distortions resulting from four years of unchecked inflation.

I want to doubly emphasize that these problems were induced by inflation, and not by the corrective measures employed to contain it. This was nowhere more obvious than in the money and credit markets. Confronted with an interest rate structure vastly elevated by inflation-fed demands, essential monetary policies -- resulting in a squeeze on available credit -- obviously increased the price of funds. Perhaps even more disruptive, however, was the strength of inflationary expectations in forcing up interest rates.

Primarily because of institutional factors, some borrowers felt the brunt of high interest rates far more than others. Cash flows into thrift institutions oriented toward mortgage markets were impeded. Housing suffered correspondingly.

In addition, markets for the tax-exempt obligations of state and local governments were hit hard. A combination of legal interest rate limitations and reduced bank credit availability limited state and local government access to the funds required. As a result, an estimated $4 billion of state and local government issues were postponed or cancelled during 1968 and 1969. Needed capital improvements had to be whittled down or deferred altogether.

One might argue that this is exactly what monetary restraint is designed to accomplish -- the deferral of demand for goods and services.

The question, however, was not whether demands should be curtailed, but which demands and by how much. The point to be emphasized here is that the disturbances in the financial markets arising from inflation were not evenly spread, but were concentrated most heavily in two socially important, but financially vulnerable, areas of the economy -- state and local government financing, and housing. With these two sectors bearing the brunt of limited access to dwindling capital supplies, the Administration desired to undertake measures to offset this uneven market impact.

But the same factors that distorted normal patterns of capital flows also limited the remedies that were available. It was absolutely necessary to continue tight control over budget expenditures. This constraint put the government in search of remedies that would minimize budgetary outlays. This approach toward credit assistance was not new, but its need was accentuated by the very inflationary environment.

Direct federal loan programs, for example, were phased out in favor of guarantees and federal interest subsidies, particularly in the area of education and educational facilities. It is estimated, as a result, that a total of $435 million of private money will be made available for academic facilities in 1970 at a cost to the federal government of only $10 million in interest subsidies.

In addition, without directly allocating funds itself, the federal government has been exerting an expanding influence on the financial markets through the federally assisted credit programs, such as Fannie Mae, the Federal Home Loan Banks and the Farm Credit agencies.

During the fourth quarter of last year, when mortgage money was particularly scarce, the federal government, through the operations of the agencies just mentioned, was providing nearly two-thirds of the available funds for housing. And the proportion for fiscal year 1970 as a whole approached fifty percent.

In general, federal intervention in the flow of credit and capital has thus far been limited to a variety of subsidies or other incentives to private lenders, or to the actual provision of credit by an agency for specific purposes. However, pressure for more direct controls on private institutions has been evident on a number of occasions during the past year.

Proposals have been discussed in the Congress, for example, which would require certain institutions to allocate fixed proportions of their funds to mortgages. And legislation actually was passed to provide the President with unwanted sweeping authority to regulate credit flows by direct controls

At this point, I want to make one thing clear: Any increased involvement of the federal government in the financial markets has been directly precipitated by the inflationary distortions introduced into those markets to such a great degree in the past few years. It is not something this Administration has desired or encouraged.

Indeed, President Nixon has successfully resisted efforts to push the Government any more deeply into the business of allocating credit. But there is little doubt that such proposals would have been pressed even harder had not inflationary pressures been reduced this year and a better balance in financial markets restored.

Restoration of the normal pattern of credit flows is indeed progressing as we move along in our efforts to control inflation and resume stable growth. Developments in financial markets over the coming months will be greatly influenced by our ability to maintain responsible control over federal spending as well as by the monetary and fiscal policies we follow to promote a steady resumption of real growth in the economy. We are clearly now on the right track. Indeed, output is now moving upward. Real gross national product was up moderately in the third quarter, despite the auto workers strike. This marks the second straight quarter of positive real output; and, more importantly the third quarter rate of advance was greater than experienced in the second quarter.

Therefore, I view the proper stance of the federal government to be the continuation of efforts to maintain control over the growth in federal expenditures while the Federal Reserve is proceeding with a moderate rate of monetary expansion. The continued restoration of balance in the capital markets will depend on how well the economy as a whole responds to our policies. Expansion is projected at a rate consistent with long-range stability.

While both long-term and short-term interest rates are declining, it is generally agreed that they are unlikely to recede to the low levels of the early '60's. World-wide demand for capital is just too high for that. At the same time, we anticipate no repetition of the historically high levels of the past few years. Removal of inflationary expectations alone -- such as we are currently experiencing -- argues strongly against such a recurrence.

However, the decline in interest rates will be tempered somewhat by the high demand for loanable funds that is likely to continue, particularly in the long-term area. As the economy picks up, so will demands for business investment, housing, consumer credit and state and local capital spending. Many of these demands, particularly, as I mentioned earlier, in the areas of housing and local government financing, have been pent up during the recent period of financial tightness.

The future impact of the Federal government on the financial markets will depend to a large extent on the degree to which it competes with other borrowers for available funds. This, in turn, will be heavily determined by the projected course of the federally-assisted credit programs.

As long as the availability of capital remains tight, federally-assisted or guaranteed programs tend to redistribute available funds without increasing them.

Interest rates would remain up and certain other prospective borrowers are therefore squeezed out. Yet as normal savings flows are further restored in the process of returning to economic stability, I look for the impact of these programs on total capital flows to diminish, assuming no further relative growth in the programs themselves.

Of course, the size of federal government demands on the nation's output and funds will be of importance to orderly market behavior.

In this light, the President's intentions to hold federal outlays within the level of revenue generated by a high employment economy should have a favorable impact on the credit markets. Keeping fiscal policy in such a stabilizing posture should help to insure that federal financing requirements remain well within the capacity of the markets and consistent with a continuation of the long-awaited trend toward lower interest rate that is now underway.

When this administration came into office the nation was in the fourth year of an inflationary binge. Some observers urged that we institute complicated controls which would have piled regulation upon regulation and enforcement bureau upon enforcemen bureau. Others advocated that we plunge the economy into sharp recession, in order to purge us of the rampant inflation.

Instead, we chose the traditional and most responsible methods of monetary and fiscal restraint. And we determined that these restraints should not be applied with such suddenness that the economy would skid into a deep decline with the pain that would result.

None of us deny that there has been some pain in this correction. Unemployment went up, capital markets were distorted but unemployment is not as high as it was in the pre-Vietnam days. Personal income has continued to rise. Industrial production went down far less than in previous economic correction periods. We are now resuming expansion at a rate which will permit continued progress in the effort to reduce the pace of inflation. In this process, we have not suffered the traditional economic recession which so many observers either advocated or predicted.

Our policies have worked and will continue to work. The economy is definitely on the uptick. We expect the economic machinery to keep ticking upward steadily and at a sustainable rate. Such progress will enable us to attain the objective which proved so elusive to the previous Administration: A growin economy characterized by high employment and stable prices.

oOo

MEMORANDUM FOR THE PRESS: October 19, 1970

The attached remarks of Assistant Secretary for Enforcement and Operations Eugene T. Rossides before the International Narcotic Enforcement Officers Association in Honolulu were read to this group by Gordon Liddy, Special Assistant for Organized Crime.

c157

he Department of the TREASURY NEWS

INGTON, D.C. 20220 TELEPHONE WO4-2041

REMARKS OF THE HONORABLE EUGENE T. ROSSIDES
ASSISTANT SECRETARY OF THE TREASURY
FOR
ENFORCEMENT AND OPERATIONS
BEFORE THE
ELEVENTH ANNUAL CONFERENCE
OF THE
INTERNATIONAL NARCOTIC ENFORCEMENT OFFICERS ASSOCIATION
HILTON HAWAIIAN VILLAGE HOTEL, HONOLULU, HAWAII
OCTOBER 19, 1970 4:30 p.m.
EDT

FOR RELEASE ON DELIVERY

President Nixon's Anti-Drug Abuse Action Program

It is a privilege to give the keynote address to a gathering of international professional specialists in an area of law enforcement of such critical importance in the world today. All of you are serving on the front line in the global battle against drug abuse.

It is appropriate, therefore, to outline for you the response of the Nixon Administration to the challenge of drug abuse. Drug abuse is a problem increasingly on the minds of people throughout the world and of particular concern in the United States.

The problem of drug abuse was not created overnight, and it will not be cured overnight. The drug problem of the 1950's became the drug crisis of the 1960's. It will take hard work and cooperative effort in the 1970's by many groups on the international, national, State and local levels to win this battle.

President Nixon has responded to the challenge by a multi-faceted action program:

First: he has elevated the drug problem to the foreign policy level and has taken personal initiatives in soliciting the cooperation of other governments.

Second: he has recognized the short- and long-term importance of education and has expanded research and rehabilitation efforts by providing for increased funds in these essential areas.

Third: he has been sensitive to the differences between narcotic, psychotropic and hallucinogenic drugs, and recommended a flexible criminal penalty structure based upon those differences. This has included for the first time on the Federal level a differentiation in the criminal penalty structure between heroin and marijuana.

Fourth: he has backed drug law enforcement with substantially increased budgetary support; and

Fifth: he has stressed the need for cooperation by our Federal government with our States and for total community involvement in the solution of the problem.

The multi-dimensional program of President Nixon has, in my judgment:

1. arrested the United States' incredible downward slide into drug abuse, although we have a long and steep climb ahead of us to return to the level from which we fell; and

2. alerted the international community to the global problem of drug abuse. This is world leadership of the highest order.

Foreign Policy and Presidential Initiative

One of the serious errors of the past was the failure to appreciate drug abuse as a worldwide problem calling for an international response. Prior to this Administration, international activity by the United States was primarily on the enforcement level.

President Nixon recognized the heart of the problem and corrected it by raising drug abuse to the foreign policy level and has taken personal initiatives in eliciting the cooperation of other governments.

The result of this major change in the approach of the Executive Branch was to make the Department of State, as the primary representative for communicating to foreign governments the vital interest of the United States, responsible for doing everything necessary to advance our anti-drug abuse policy through diplomacy.

Secretary of State William P. Rogers has given high priority and personal leadership to the Department of State's efforts in this area. One of his early acts was the creation of the position of Special Assistant to the Secretary of State for Narcotics Matters, whose duty it is to coordinate and push forward the various elements of the campaign against drugs which have foreign relations implications. He appointed a senior Foreign Service Officer to this post.

This new role of the State Department in the Administration's war on drugs has had a unique and important 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.

Recently, as an example, the United States has exploited fully the opportunities afforded by international institutions to focus the resources of the world community on the drug abuse problem. The United Nations Commission on Narcotic Drugs has just completed a week-long special session designed to strengthen international efforts within the framework of the Single Convention on Narcotic Drugs of 1961. Just two weeks ago, I had the privilege of leading the United States Delegation of the 39th Annual General Assembly of Interpol at Brussels, where this matter was the subject of a great deal of productive attention. Thus, through the use of diplomacy, we continue to advance substantially our anti-drug abuse objectives.

Education, Research, and Rehabilitation

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 sources, 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. Implicit is the belief that the vast majority of youth, when given access to the facts, will reject drug abuse as against their self-interest and the interest of their nation as a whole.

President Nixon is convinced that much of our problem is attributable to the mass of mis-information 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, our 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.

Backing up this commitment, the President 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.

Through the Department of Defense, our Federal Government is reaching thousands of military personnel who have been using drugs but who the Department of Defense believes can be rehabilitated. An intensive rehabilitation program, down to the command level, is currently in progress and being expanded. We hope to learn from the Department of Defense program lessons which can be applied outside of the military framework.

Flexible Penalty Structure

The current United States Federal laws with respect to drugs classify marijuana as a narcotic. This is contrary to fact and subverts a key element in reaching youth; namely, creditability. Although not a narcotic, marijuana is a dangerous substance and, accordingly, should be treated most seriously.

The Administration's Controlled Dangerous Substances bill provides for the first time that a first offender may be granted a totally clean slate by wiping out his record without adjudication of guilt.

Law Enforcement

Drug law enforcement is a difficult and dangerous business. It demands the highest standards of professional competence of enforcement agents. President Nixon has increased substantially the budgets of the two Federal agencies primarily concerned with drug law enforcement -- the Bureau of Narcotics and Dangerous Drugs of the Department of Justice (BNDD) and the Treasury's Bureau of Customs.

To meet the smuggling challenge in the drug field, Treasury Agents of the Customs Bureau work closely with BNDD agents. The degree of cooperation between the two agencies has never been better. BNDD agents are in Customs offices along the Mexican-United States border and Customs Agents are in BNDD offices abroad.

The burdens carried by these agencies are illustrated by the record of the Treasury Agents of the Customs Service, who in 1969 worked over 111,000 hours on their own time without pay to meet the challenge of drug abuse.

In enforcing the law, only half the job is done when the suspected violator is arrested. Society is not protected until a jury is persuaded of guilt beyond a reasonable doubt. Skillful prosecution is necessary.

The Department of Justice is meeting this challenge with a new aggressiveness inspired by this Administration, backed up by substantial funding for the narcotics prosecution section of the Department.

Multi-level Cooperation and Community Involvement

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.

President Nixon's commitment to State cooperation in the battle against drug abuse is typified by the State Governors' Conference at the White House, held last December, to facilitate the closest possible coordination between the Federal and State Governments.

The State of California, under the leadership of Governor Reagan, and the State of New York, under the leadership of Governor Rockefeller, have led the way for all the states in combatting drug abuse.

There are three thousand counties in the United States and all share a common concern -- the drug abuse problem.

The National Institute of Mental Health is funding three centers:

1. the Drug Dependence Institute of the Yale University Medical School Department of Psychiatry in New Haven, Connecticut,

2. the University of Oklahoma Center and

3. the University of California Center at Haywood.

They will train hundreds of professionals from communities all over the country who could then return to other communities to train, in turn, other community leaders and enlist their help in organizing drug abuse education programs for:

1. Parents and children.

2. Students from secondary schools and colleges who intend to aid in developing various types of drug education programs.

3. Religious organizations including ministers, priests, rabbis, and lay workers.

4. Community and civic groups such as Rotary, Kiwanis, Chamber of Commerce, Jaycees, etc., and local neighborhood action committees, anti-poverty agencies and community health centers.

5. Major employers in the community.

With the benefit of the above program, existing community action groups, formed by concerned citizens, will be far more effective.

I have outlined to you the Five-step Program through which President Nixon was able to arrest the rapid deterioration of the drug abuse situation in the United States and which has alerted the world community. As the President has stressed this is a major international problem. We need each and every one of you, both from the State and local levels of the United States and from each nation. This is a worldwide problem and its solution depends upon worldwide action.

456

he Department of the TREASURY

NEWS

NGTON, D.C. 20220 TELEPHONE W04-2041

ATTENTION: FINANCIAL EDITOR

FOR RELEASE 6:30 P.M.,

Monday, October 19, 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 July 23, 1970 , and the other series to be dated October 22, 1970 , which were offered on October 13, 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 $1,400,000,000 or thereabouts, of 182-day bills. The details of the two series are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	91-day Treasury bills maturing January 21, 1971		182-day Treasury bills maturing April 22, 1971	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv. Annual Rate
High	98.504	5.918%	96.930	6.073%
Low	98.494	5.958%	96.886	6.160%
Average	98.498	5.942% 1/	96.902	6.128% 1/

79% of the amount of 91-day bills bid for at the low price was accepted
54% of the amount of 182-day bills bid for at the low price was accepted

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	Applied For	Accepted
Boston	$ 31,165,000	$ 20,575,000	$ 18,000,000	$ 18,000,000
New York	2,353,735,000	1,378,185,000	1,511,365,000	968,965,000
Philadelphia	42,080,000	23,115,000	10,595,000	10,595,000
Cleveland	51,655,000	41,630,000	39,175,000	26,445,000
Richmond	53,155,000	21,845,000	19,930,000	13,010,000
Atlanta	55,345,000	39,535,000	37,660,000	32,200,000
Chicago	241,430,000	97,670,000	213,430,000	175,930,000
St. Louis	47,625,000	33,865,000	35,005,000	31,905,000
Minneapolis	37,550,000	24,800,000	26,065,000	16,065,000
Kansas City	44,720,000	38,985,000	27,265,000	25,965,000
Dallas	30,880,000	17,680,000	31,495,000	26,035,000
San Francisco	166,445,000	62,870,000	129,495,000	55,195,000
TOTALS	$3,155,785,000	$1,800,755,000 a/	$2,099,480,000	$1,400,310,000 b/

a/ Includes $ 389,300,000 noncompetitive tenders accepted at the average price of 98.498
b/ Includes $ 230,415,000 noncompetitive tenders accepted at the average price of 96.902
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 6.12% for the 91-day bills, and 6.41% for the 182-day bills.

The Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE WO4-2041

FOR IMMEDIATE RELEASE October 20, 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 $3,200,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing October 29, 1970, in the amount of $3,102,340,000, as follows:

91-day bills (to maturity date) to be issued October 29, 1970, in the amount of $1,800,000,000, or thereabouts, representing an additional amount of bills dated July 30, 1970, and to mature January 28, 1971, originally issued in the amount of $1,300,670,000, the additional and original bills to be freely interchangeable.

182- day bills, for $1,400,000,000, or thereabouts, to be dated October 29, 1970, and to mature April 29, 1971 (CUSIP No. 912793 KF2).

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, $15,000, $50,000, $100,000, $500,000 and $1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Standard time, Monday, October 26, 1970. Tenders will not be received at the Treasury Department, Washington. Each tender must be for a minimum of $10,000. Tenders over $10,000 must be in multiples of $5,000. 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 accompanie 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 **October 29, 1970,** in cash or other immediately available funds or in a like face amount o Treasury bills maturing **October 29, 1970.** Cash and exchange tender will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

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 considered to accrue when the bills are sold, redeemed or otherwise disposed of, and the bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder must include in his income tax return, as ordinary gain or loss, the difference between the price paid for the 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.

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.

oOo

458

Department of the TREASURY

TON, D.C. 20220 TELEPHONE W04-2041

NEWS

FOR IMMEDIATE RELEASE October 20, 1970

TREASURY'S MONTHLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $1,700,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing October 31, 1970, in the amount of $1,504,368,000, as follows:

271-day bills (to maturity date) to be issued November 2, 1970, in the amount of $500,000,000, or thereabouts, representing an additional amount of bills dated July 31, 1970, and to mature July 31, 1971, originally issued in the amount of $1,202,410,000, the additional and original bills to be freely interchangeable.

365-day bills, for $1,200,000,000, or thereabouts, to be dated October 31, 1970, and to mature October 31, 1971 (CUSIP No. 912793 KT2).

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, $15,000, $50,000, $100,000, $500,000 and $1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Standard time, Tuesday, October 27, 1970. Tenders will not be received at the Treasury Department, Washington. Each tender must be for a minimum of $10,000. Tenders over $10,000 must be in multiples of $5,000. 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. (Notwishstanding the fact that the one-year bills will run for 365 days, the discount rate will be computed on a bank discount basis of 360 days, as is currently the practice on all issues of Treasury bills.) It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

Banking institutions generally may submit tenders for account of customers provided the names of the customers are set forth in such tenders. Others than banking institutions will not be permitted to submit tenders except for their own account. Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank c 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 c 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 bidde will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on November 2, 1970 in cash or other immediately available funds or in a like face amount Treasury bills maturing October 31, 1970. Cash and exchange tenders will receive equal treatment. Cash adjustmen will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

Under Sections 454 (b) and 1221 (5) of the Internal Revenue Code c 1954 the amount of discount at which bills issued hereunder are sold is considered to accrue when the bills are sold, redeemed or otherwise disposed of, and the bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder must include in his income tax return, as ordinary gain or loss, the difference between the price paic for the bills, whether on original issue or on subsequent purchase, anc the amount actually received either upon sale or redemption at maturit during the taxable year for which the return is made.

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 fron any Federal Reserve Bank or Branch.

oOo

FOR RELEASE 12 NOON PST

REMARKS BY THE HONORABLE CHARLS E. WALKER, UNDER SECRETARY OF THE TREASURY, AT THE LOS ANGELES HILTON HOTEL, OCTOBER 22, 1970. THE LUNCHEON WAS PART OF A GREAT ISSUES SERIES SPONSORED BY PEPPERDINE COLLEGE.

The American economy is the biggest and most complex economic system the world has ever known. It is constantly being subjected to a wide variety of forces, both public and private, internal and external, that shape its performance and alter the expectations of those who are an integral part of it.

Because of this very complexity, economists who try to analyze the health of the economy at any given time must rely on the whole spectrum of statistics. Few doctors would be willing to certify the health of a patient with any single test--they would insist on a complete examination. Nor would they place total reliance on an examination without knowing the history of the patient.

Today, unfortunately, too many people are willing to look at an individual statistic, covering a period of a week or a month, and use that figure to support their own preconceived notions about the health of the economy. Others, only slightly more sophisticated, are willing to look at one series and translate that into their own forecasts for the economy.

An example of the first type would be a person who gets all excited about the week-to-week changes on the Treasury 90-day bill rate.

For the past several weeks this rate has been fluctuating around the 6 per cent level--one week slightly above it and the next week perhaps slightly below it. Put in perspective, it is much more important to note that this rate has dropped in the past 10 months from a peak of over 8 per cent to its current level near the 6 per cent range.

Others tend to take a single indicator--the stock market for example--and conclude that the performance of the whole economy is going up or down with that indicator.

With all of these varying opinions, conclusions and forecasts being issued, the element that is most needed is perspective--and it is a sad but true fact of political life that perspective is very hard to come by in the weeks immediately preceding a nation-wide election.

I am firmly convinced that those who are willing to view the economy with any reasonable perspective will conclude that the basic trends in the economy are most satisfactory. Perhaps the best way to gain the necessary perspective is to ask three basic questions about the economy--where have we been, where are we now, and where are we heading.

Where have we been:

When President Nixon took office in January 1969, he inherited one of the most difficult economic problems ever assumed by a Chief Executive. Inflation and inflationary expectations had been allowed to capture the economy. Rising prices were eating into the paychecks and savings of all Americans. The economy was being strained to its capacity.

Bottlenecks were evident in terms of manpower and materials. Our imports soared to meet rising demand and our exports were being priced out of world markets. As a result, our trade surplus which reached a peak of $5 billion in the mid-60's had dropped to almost zero by the end of the 60's.

This inflationary boom, if permitted to go unchecked, would have led to a massive bust that would have been catastrophic, not only for the United States but for the whole community of free world nations.

The genesis of the problem is easy to identify; starting in mid-1965, with the escalation in Viet Nam, we superimposed a war costing up to $30 billion a year on top of an economy that was already moving strongly back to capacity output and employment.

If we had moved early enough to pay for the war, either through taxes or cutbacks in non-Viet Nam spending, the inflationary pressures that wars always engender could have been largely contained. But we did not.

President Johnson delayed his request for the income tax surcharge for 18 months, and Congress took still another 18 months to enact it--a costly delay of three years in moving to pay for the war.

Nor was non-Viet Nam spending cut back--quite the contrary. In the four fiscal years ended in mid-1969, domestic programs added some $35 billion to the federal budget.

This massive upsurge in federal spending, underwriting both the war in Southeast Asia and an ambitious array of domestic social programs at the same time, was the villain in the inflationary process of the late 1960's. Except for a relatively short period in 1966, Federal Reserve monetary policies reinforced rather than offset these inflationary pressures.

To stop the inflation and restore healthy growth, the President set out in 1969 to reverse the policies that caused the troubles in the first place. He has proceeded to wind down U.S. participation in the war in Southeast Asia. And he served notice to both his Administration and to the Congress that spending on domestic programs, however worthy in the long run, had to be kept within reasonable bounds so long as inflationary pressures threatened to destroy the economy.. During the same period, the Federal Reserve shaped its policies so as to reduce the rate of monetary expansion.

The reduction in the rate of increase in federal spending and the changed monetary policies of the Federal Reserve have achieved their objective. In real terms, the U.S. economy leveled off in the latter half of 1969 as the inflationary fires were cooled.

Where are we now:

Skeptics point to continued upward movement of price indexes, maintaining that our policies have failed. They are wrong. Prices continue to rise, and will for some time in the future, but the rate of increase at both the consumer and wholesale levels has slackened considerably as inflationary pressures have been contained.

Viewed in perspective, the consumer price index over the first 5 months of this year increased at a seasonally adjusted annual rate of 6 per cent. Over the past 3 months, this rate of increase has dropped to 3.6 per cent. The wholesale price index showed a similar trend--during the fourth quarter of 1969 and the first quarter of 1970, it was going up at a rate of 5.4 per cent. During the past two quarters, the rate of increase dropped to 2.1 per cent.

The prospects are excellent for continued improvement in the price picture in the months ahead.

The trouble is that the policies of inflation control take time to work through to the final consumer--the inflation was four years a-building, and it would not be reasonable at all to expect an overnight cure.

The town rounder who goes on a 4-day bender is going to have to go through a rough and extended hangover period. The U.S. economy went on a 4-year inflationary binge, and we are now in the uncomfortable but absolutely unavoidable hangover growing out of that binge.

Still another group of critics, somewhat less vocal than a few months ago, charge that the Administration's plan to halt inflation has thrown the economy into a recession. These critics are also wrong. The U.S. economy is not in a recession and has not been in a recession.

Here again, perspective and caution in allowing for economic cross currents are necessary. To qualify as a recession in the past, an economic adjustment had to be relatively deep and severe. The 1969-70 adjustment, although certainly uncomfortable, has been much milder than any officially designated recession of the past.

True, unemployment has risen--partly as a result of the economic adjustment--but also because of the ongoing shift away from a military economy towards a peacetime economy. Approximately one million people have been affected by the shift toward promoting human rather than military resources.

The Administration is concerned about unemployment and will not deem its policies to be fully successful until all of those who are able, willing and seeking to work can obtain useful employment opportunities. But to have attempted to maintain jobs through inflation would have ultimately been self-defeating; sooner or later a reaction would set in that could shoot unemployment back to the high levels of the early 1960's, or even higher.

This Administration is committed to restoring full employment, but we are determined to do so in a way that does not re-ignite the inflationary tender. We must protect both the value of the peoples' earnings and the availability of future jobs.

Where are we heading:

Economic activity bottomed out in the first quarter of 1970 and rose moderately up until the time of the automobile strike in September. Past experience indicates that, unless in lingers on too long, the strike's influence is likely to be short lived--its dampening impact on the last quarter of this year is likely to be offset by increased activity, of a catch-up type, in the first quarter of 1971.

As already noted, this expansion can restore healthy growth and reduce unemployment, without rebuilding the inflationary fires which have so damaged the economy.

How confident am I that this will actually be the case? Highly confident--provided the Congress cooperates with President Nixon in his determined efforts to keep federal spending from ballooning out of control once again.

Thus far Congress has insisted upon adding unnecessarily to appropriations requests sent up by the President, especially in the politically popular areas of housing, education and welfare. The President has vetoed several of these measures, and he is prepared to veto more, if necessary, to prevent the resurgence of inflation.

We have been going through a painful but necessary adjustment from an overheated economy to one of healthy, balanced and sustainable growth with stable prices.

Here are a few of the indicators that provide the basis for my optimism:

** Interest rates: Interest rates have receded from their historic highs and most experts predict further reductions.

** Savings: All types of financial institutions are experiencing an inflow of savings which will increase the availability of credit.

** Housing: New housing starts are on the upswing.

** Stock market: The stock market--as measured by the Dow Jones average--has rebounded by over 100 points from its low for the year.

** Bond market: Yields have dropped on corporate and municipal bonds as individuals and institutions have regained confidence in fixed income securities.

** Gross National Product: After registering slight declines in the fourth quarter of 1969 and the first quarter of 1970, gross national product in real terms increased by .6 per cent in the second quarter of 1970 and by 1.6 per cent in the third quarter in spite of the strike in the auto industry.

** Balance of trade: Our United States balance of trade with other nations is again on the rise. In 1964 our exports exceeded our imports by $7.1 billion. By 1969 this surplus had dropped to $8 million. For the first 6 months of 1970 the surplus had climbed to an annual rate of $3.2 billion.

These are some of the major indicators that can help us all put the economic situation and the economic outlook in its proper perspective. However, the adjustment process is not yet complete. If we reverse policies too quickly, we will sacrifice the hard won gains we have registered. And make no mistake about it: If we permit still another upsurge of inflation to develop so soon after our bitter experience in the late 1960's, then its taming and control will be all that more difficult. And the American people will again question the ability and willingness of the government to deal with so serious a problem.

The President and his economic aides understand this. You can be assured that he will not relent. And, with the help of the people, through the Congress, the fiscal responsibility so necessary to the well being of the people will be maintained.

oOo

The Department of the TREASURY

WASHINGTON, D.C. 20220 TELEPHONE W04-2041

4-70

NEWS

FOR RELEASE UPON DELIVERY

REMARKS OF THE HONORABLE MURRAY L. WEIDENBAUM
ASSISTANT SECRETARY OF THE TREASURY FOR ECONOMIC POLICY
BEFORE THE ANNUAL MEETING OF THE
AMERICAN INSTITUTE OF AERONAUTICS AND ASTRONAUTICS
HOUSTON, TEXAS
OCTOBER 22, 1970, 12:00 NOON, EST

GOVERNMENT INVESTMENT IN TECHNOLOGY

I am honored to participate in the President's Forum of the AIAA. My remarks will be those of an Associate Fellow of the Institute rather than an expression of Administration policy.

The great bulk of the public discussions dealing with the role of science and technology in the United States strikes me as both discouraging and unproductive. On reflection, I think that this is so because the dialogue generally is limited to a heated exchange between two polar alternatives.

The first polar alternative I would label the "view with alarm." It has become fashionable in many quarters, particularly in the humanities, to view with alarm the extent to which "uncontrolled" science and technology are supposedly destroying our society. Almost every day I come across another denunciation of these allegedly twentieth-century Philistines and their deleterious influence on all that is noble and pure in the human condition.

The second polar alternative is somewhat harder to define. It might be said that it looks upon science and technology almost as something sacred and inviolable. Any retardation of the rate of spending for research and development is viewed as no less a sin than the suppression of truth. Or it may be that the holders of this position do not really view science and technology as being beyond criticism, but, perhaps worse yet, as ends instead of means.

Caught in the forensic cross-fire touched off by these two opposing viewpoints, attempts by laymen to involve themselves in science policy often engender cries of interference, short-sightedness, and worse.

The interested bystander searches for an honest and sensible position -- one that tries to balance the collective benefits against the social costs of certain technological advances or proposed scientific research undertakings. Every human undertaking, including the basic research and development process, involves the utilization of certain resources. These generally include human and physical, as well as financial, resources. Obviously, there are alternative uses for such scarce economic resources, and our fundamental concern is that we allocate these resources in the most efficient and intelligent manner. Regardless of whether private or public decision-makers are responsible for these allocation choices, there is always the need for thorough analysis and justification before undertaking a major project.

However, when in the past I examined the actual justifications for undertaking many new major scientific projects, I was often struck by the absence of that objectivity and hard, factual, quantitative analysis that I associate with the core of the scientific method. I am amazed when scientists say that we must embark upon a major technological project on faith -- faith that through serendipity (the invention of this all-purpose justification must rank as an important technological innovation in and by itself) it will turn out to be worthwhile after all.

Let me cite a case in point. When still in university life, I attended an important meeting of a national scientific and engineering association. The audience was assured by one very distinguished speaker that a specific current major technological undertaking would produce great benefits, of which by far the most important would be those that we cannot presently conceive of. That scientific forecaster saved his greatest contempt for what he termed the present-day doubters of the benefit of such technological undertakings. He contended that in future periods we all will look back with disdain upon these people as men of little faith.

To those who are neither scientific theologians nor wistful yearners for a simpler society, I offer a third position. It may be considered the agnostic view of the social scientist, and perhaps more particularly of the economist.

To clear the air, I assume that we will not try to stifle scientific inquiry nor inhibit technological innovation. Also -- and this may be the hooker -- I assume that the determination of the uses to which public resources, particularly money, are put is a matter for the general public to decide.

Hence, if a professor of engineering wants to devote his leisure time to designing a commercial submarine or planning a linear accelerator, he should be entirely free to do so. However, when he asks for $100 million of taxpayers' money to start building the gadget, he should have to justify it -- and not in the soft, theological terms so often used by the natural scientists in such matters, but in the hard, objective manner of the social scientist.

He should have to answer questions such as these: Are the expected benefits worth the cost? How well can he measure the benefits? Has he omitted important elements of cost to society, such as polluting the environment? Finally, and most crucial, are the returns from this use of public funds likely to be greater than from alternative uses?

I find this way of thinking about public resource allocation problems quite pertinent to the current discussion of how to utilize the technical capability being made available by reductions in defense spending. Quite a few people seem to view the problem as simply one of deciding which of the many "unmet" needs in the civilian economy are to absorb the attention -- at Federal expense, of course -- of the companies, facilities, and people no longer working on defense programs.

I certainly share the concern over the effective use of the very valuable resources -- especially people -- that are becoming available, but I would stress the effectiveness aspect. I would return to the earlier point that scientific and engineering capabilities are means and not ends. Hence, I believe that the proper way of planning the post-Vietnam conversion is to identify the high priority civilian areas and increase the budgets for them, while cutting back the lower priority areas.

This is precisely what the Nixon Administration is trying to do. Between the fiscal years 1969 and 1971, national security outlays are being reduced by $7.3 billion. Simultaneously, expenditures for human resources and other public welfare activities are being raised by $15.9 billion, expenditures for environmental improvement, education, and other economic development purposes are expanding by $10.4 billion, and expenditures for crime control and other general government purposes are up $6.6 billion.

Thus, by increasing contracts and other disbursements for these key civilian areas, companies are encouraged to bid on these types of contracts and people are attracted to work in these new high priority areas. Of course, we have no guarantee that the result will be the same kinds of jobs in the same localities with the same companies.

However, change is an essential aspect of a modern society. That should not surprise us as we have seen in recent decades the tremendous expansion of the aerospace industry require attracting people and capital from other parts of the economy, often to the discomfort and displeasure of those other companies and their employees, stockholders, and suppliers. Pleasant or not, we should not expect that type of movement always to be in one direction.

I would suggest that, to the extent that we can recognize the changing nature of national priorities, the better position we will be in to adjust to these changes and to take positive advantage of the new professional opportunities and business potential that develop.

With reference to the relationship of science and engineering to changing national priorities, I am impressed by the cogency of recent remarks by Dr. Lee DuBridge, the former Science Adviser to the President. As he put it, "A national policy for science should be to use our scientific talent to its maximum potential continuously and hopefully to stabilize the budget for scientific discovery as much as possible ... In technology ... the prime consideration is the cost/benefit analysis of what technology is essential and important to the country at this particular time."

That strikes me as a very realistic and balanced view of things. We now expect such greatly maligned types as administrators of social welfare programs to make these benefit/cost calculations to support their budget requests for new training, health, and anti-poverty programs. I see great charm in extending the use of the scientific method to public resource allocation in the areas of science and, especially, technology. To the extent that this is done successfully, I would expect that we will witness increasing effectiveness in the application of the work of aerospace scientists and engineers to meeting the high priority needs of our society.

o0o

472

The Department of the TREASURY

WASHINGTON, D.C. 20220 TELEPHONE WO4-2041

NEWS

FOR IMMEDIATE RELEASE

REMARKS OF THE HONORABLE JOHN S. NOLAN
DEPUTY ASSISTANT SECRETARY FOR TAX POLICY
UNIVERSITY OF PENNSYLVANIA TENTH ANNUAL TAX CONFERENCE
PHILADELPHIA, PENNSYLVANIA
OCTOBER 14, 1970

Implementing the Tax Reform Act of 1969

The difficulty of implementing the Tax Reform Act of 1969 is illustrated by such deathless prose as was added to Code section 2(c) --

> "For purposes of this part, an individual who, under section 143(b), is not to be considered as married shall not be considered as married."

Or I might cite section 509(a), newly added to the Code --

> "For purposes of paragraph (3), an organization described in paragraph (2) shall be deemed to include an organization described in section 501(c)(4), (5), or (6) which would be described in paragraph (2) if it were an organization described in section 501(c)(3)."

Fortunately we have been able to parse these declarations and are proceeding as rapidly as possible with the most ambitious regulation writing program ever attempted. The complexities of the 1969 Act require that we provide interpretative assistance in record time. We will meet that obligation.

We have created a Policy Committee which meets weekly to decide the key policy issues to be resolved by the regulations. The Committee consists of Commissioner Thrower or Deputy Commissioner Smith; Assistant Commissioner Swartz; Chief Counsel Martin Worthy; and Assistant Secretary Cohen or myself as Deputy Assistant Secretary. Firm decisions on policy issues are made as soon as they are identified, and this has greatly facilitated the drafting process.

There are 178 separate regulation projects under the 1969 Act. Thirty-two regulations have been issued in proposed or temporary form. Twenty-four projects are in the final draft state and should be released imminently. Another 94 projects are in various preliminary stages of development and review and should be published by the year end. Thus, substantially all the regulations should be out in temporary, proposed, or final form by the end of 1970.

The first public hearing on a proposed regulation under the 1969 Act has been scheduled for October 26; it relates to our recent proposed regulation applying the original issue discount provisions of section 1232 to require annual reporting

Private Foundations

A difficult issue in the private foundation provisions is whether the self-dealing provisions (section 4941(d)(1)(E)) prevent a bank acting as trustee of a charitable trust subject to these provisions, or as a trustee or manager of a private foundation, from maintaining a custodial account with its investment branch or a savings account or checking account with its banking department. The thought of competing banks causing each of their trust departments to maintain custodial accounts and bank accounts with the other -- "cross-fertilization" -- boggles the mind!

In the case of a custodial account, the charitable trust or private foundation retains full legal and beneficial interest in the assets placed in the custody account. The assets have not been transferred to the bank; nor is there any lease, loan, or other similar transaction of the type described in the self-dealing rules. Our tentative view is that these rules would not apply in such a case. We also feel that the fees paid for maintenance of such a custodial account could be treated as within the exception in section 4941(d)(2)(E) for reasonable compensation paid for certain personal services.

The savings and checking account cases are more difficult. The bank acquires the use of the funds subject only to federal or state reserve and regulatory requirements. There is a transfer of the foundation's assets to the bank. At the same time, bank deposits are not commonly viewed as any of the type of transactions described in the self-dealing provisions, and such a deposit would not violate the highest fiduciary standards. The question is whether we can justify a special exception for this situation in the regulations in view of the broad language of the statute.

A particularly difficult definitional problem arises in connection with "operating foundations", which enjoy a special status. Operating foundations are not subject to the income pay-out rule in section 4942, qualify for charitable contributions deductions up to the 50 percent level, and are not subject to the one year expenditure requirement for grants received from another private foundation. A foundation is in the "operating" category if its income and assets are devoted "directly" to the "active conduct" of its charitable or educational activities. What, however, of foundations which conduct aggressive grant-making programs such as furnishing aid to students of exceptional promise who are without means, or low interest loans to needy ghetto businesses, where the foundation may in varying degrees have actively sought out these persons?

As usual, the question may well be one of degree. If the foundation has made grants to applicants, or to persons referred to them by others, there is some "activity" in such a program but it does not appear to be the kind of "operation", as distinguished from grant-making, which Congress had in mind. If, however, the foundation has a staff of welfare experts or business analysts and provides special expertise in selecting and counseling the grantees, the result may be different. Certainly if in addition to making grants, the foundation were to provide a full program of activities (such as courses, seminars, or conferences to assist the aided students or ghetto businesses), the grants could be viewed as part of a broader program of devoting income directly to the active conduct of its charitable activities.

Charitable Contributions

Proposed regulations on pooled income funds and charitable remainder trusts were published on July 17 and August 5, 1970; public hearings will be held on November 5-6, 1970, and we intend to finalize these regulations by the end of the year. Protests have suggested that additional time be given beyond the January 1, 1971, date in the proposed regulations for pooled income funds and charitable remainder trusts to amend governing instruments to conform to the new regulations. This date will probably be extended to July 1, 1971. In addition, it has been proposed that sample documents, containing the necessary governing instrument requirements, be published to give guidance to those seeking to make gifts under sections 642 or 664. We will seek to develop a revenue procedure or ruling to satisfy this need.

We will also make it clear that in the case of wills executed prior to October 10, 1969, a charitable remainder trust provision need not be amended until October 9, 1972, to conform to the new statutory provisions. Thus, the existing inconsistency between section 2055(e) and section 508(d) will be resolved by adopting the more liberal rule.

In the case of charitable remainder trusts, it has been suggested we clarify the manner in which a decedent may leave the residue of his estate to a charitable remainder trust. We are aware that example (2) in section 1.664-1(a)(3) is not clear on this point. We intend to make it clear that a charitable remainder trust may be funded from a residuary estate without difficulty where the trust is funded in the normal way out of the residue of the estate after payment of the estate's obligations and after the period for proof of claims has expired.

Another interesting problem is whether the new bargain sale provisions of section 1011(b), requiring an allocation of basis between the gift portion and the sale portion of the transaction, apply to charitable gift annuity transactions. In these transactions, the taxpayer donates property to a charitable organization in return for the organization's agreement to pay him an annuity. Our tentative position is that section 1011(b) applies; the transfer of the property is in part an"exchange" for the annuity.

Questions have been raised as to the scope of the new rule denying a charitable contribution deduction for a gift of less than the taxpayer's entire interest in property unless made in trust in conformity with the new charitable trust rules. The Conference Report states that a gift of a perpetual open space easement in gross is a gift of an undivided interest in property. The regulations will carry out this legislative intent and will attempt to draw a workable line between gifts of a vertical slice of the taxpayer's property interest -- an undivided share of all of the taxpayer's interest in perpetuity or at least for as long as the taxpayer's interest runs -- and a horizontal slice, such as the right to use the property for a term less than the taxpayer's term of ownership.

Accumulation Trusts

As you know, the 1969 Act greatly extended the operation of the throwback rule by eliminating the 5-year limitation and the exceptions. Trust beneficiaries are now taxed on distributions received from accumulation trusts in substantially the same manner as if the income had been distributed to the beneficiary currently as earned instead of being accumulated in trust. In addition, a capital gains throwback rule was also enacted, to become applicable, however, only if the trust accumulates income in the trust accounting sense under local law.

Code section 665(g) provides that the term capital gain distribution for purposes of the capital gain throwback rule means an amount as there described "to the extent of undistributed capital gain for such taxable year." The reference "for such taxable year" was clearly not intended to limit operation of the rule to capital gains realized in the year of distribution because this would make it meaningless. To implement the Congressional intent, we have issued a proposed regulation providing that the amount of undistributed capital gain for "such taxable year" (i.e., the distribution year) includes undistributed capital gains for all prior years in which or following which the trust accumulated trust income.

When a trust first becomes "tainted" due to a trust income accumulation, a further question arises whether the capital gain throwback rule will be applicable to any previously accumulated capital gain. Our proposed regulations have been taken to suggest that the capital gain throwback rule will be retroactively applied once the "taint" has been incurred. The final regulations will make it clear that a trust which accumulates trust income will be subject to the capital gain throwback rule beginning with the first year of accumulation, but not for any prior years.

A "good faith" rule will be applied in determining whether income is distributed currently, thereby permitting the avoidance of the "taint" if a reasonable effort was made to distribut all income currently even though, for example, an expense is subsequently capitalized or applicable state law is changed subsequent to the time a current distribution can be made. Also a trust which accumulates an amount of income pursuant to local law or the applicable trust instrument for a reasonable depletion or depreciation reserve will not be considered to have accumulated income for purposes of the capital gains taint.

Section 668(b)(5) specifies that the exact method of computing the tax cannot be used unless the beneficiary supplies the information with respect to his income as required by the regulations. The proposed regulations will provide that a trust beneficiary should prepare and keep a memorandum tax return or similar contemporaneous record beginning with the first year in which he has income even though a return was not required to be filed. Records to be retained should, of course, include Forms W-2 and 1099, receipts or invoices supporting deductions if they are to be itemized, and similar items.

Minimum Tax

We are faced with particularly difficult regulation problems under the new minimum tax provisions primarily because the minimum tax is an entirely new concept. A principal concern has been to devise rules to deal with situations where no tax benefit is actually derived from tax preference items.

As an example, the excess of the fair market value of stock at the time of the exercise of a qualified or restricted stock option over the option price is a tax preference subject to the minimum tax. This amount, however, is taxable as ordinary income under the stock option rules if the taxpayer disposes of the stock in the year of exercise of the option. In such case, there would be no tax benefit resulting from the preference item. Another example is accelerated depreciation in the year of sale of section 1250 property; this portion of the accelerated depreciation is fully recaptured as ordinary income under section 1250 and thus provides no tax benefit for that year.

It seems clearly inappropriate to apply the minimum tax in such cases. The regulations will provide that in cases like these where a specified item of tax preference generates no tax saving for that year, the minimum tax will not apply.

A similar problem results from the statutory formula for determining the amount of the capital gains preference for corporations. The statutory formula is based on a comparison between the regular corporate income tax rate and the alternative corporate capital gains rate. In cases where a corporation has operating losses but nevertheless uses the alternative tax computation for capital gains, the statutory formula overstates the tax benefit derived by the corporation from treating the income as capital gain rather than ordinary income. A similar problem exists with respect to the surtax exemption; the statutory formula is based on a 48 percent rate without giving effect to the 22 percent rate. The regulations will provide a modified formula which may be used by the taxpayer to determine the actual dollar amount of tax preference which would result in the tax savings obtained by the taxpayer from using the alternative capital gain tax rate.

Employee Benefits

A key provision of the 1969 Act is the maximum tax rate on earned income of 60 percent in 1971 and 50 percent for 1972 and thereafter. The provision is designed to reward personal effort and, by being withdrawn to the extent the taxpayer has "tax preferences" in excess of $30,000, to concentrate the taxpayer's activities and effort on his vocation rather than on tax devices to avoid the progressivity of the rate structure.

We have tentatively decided a number of questions. The principal difficulty is in interpreting "deferred compensation" which is specifically excluded from the definition of earned income. Ordinary income distributions from a qualified pension or profit-sharing plan should not be treated as deferred compensation for this purpose in light of the fact that in the case of qualified plans, the statute specifically excludes lump-sum distributions which receive capital gain treatment. The implication is that other qualified plan distributions were intended to qualify. The provision should be interpreted in light of its purpose to discourage the use of tax avoidance devices. Unfunded deferred compensation plans may be so characterized, but qualified plans which are designed to provide post-retirement income security on a non-discriminatory basis to a broad range of employees cannot.

Restricted property subject to the new section 83 should always qualify for the earned income rate limitation; by its nature it is deemed to have been received at the time it is treated as becoming non-forfeitable. Similarly, an interest in a non-qualified trust at the time it becomes non-forfeitable should qualify. While it is arguable that the bargain element in a stock option which is not a qualified stock option was earned at a prior time, the rule in Regulation section 1.421-6 that the income is not ordinarily deemed to arise until the option is exercised appears to be controlling and would remove such options from classification as deferred compensation.

The opportunities for full utilization of the earned income rate limit benefit in this area are manifest: these situations, unlike qualified stock options, give the employer an ordinary deduction. At a 48 percent tax rate, the corporate employer can give nearly twice the benefit to the employee at the same net cost in terms of equity dilution to shareholders. Since the employee will be taxed at a maximum of 50 percent, he will necessarily be better off than with a qualified stock option of half as much net benefit on which he will be subject to a potential capital gains tax.

Royalties for services measured in terms of gross receipts attributable to the services, such as those received by many entertainers, should qualify for the earned income benefit -- that is, they should not be treated as deferred compensation merely because they will be paid in years subsequent to the years in which the services were performed. The payments are delayed because they are contingent on sales; they are not deferred beyond the time they are earned to achieve a tax advantage. However, if earned royalties are deferred simply in time of payment, as is illustrated in the third example of Rev. Rul. 60-31, 1960-1 C.B. 174, the amounts should not qualify under section 1348.

A second area of interpretive difficulty under section 1348 concerns the reduction in qualifying amounts of earned income by tax preferences exceeding $30,000. The reduction is based on the greater of the current year's preferences or average preferences for the last five years. The question is whether years ending before January 1, 1970, should be taken into account. This would involve an element of retroactivity inasmuch as these items prior to the 1969 Act did not have the stigma of "tax preferences". Yet it would be equally unsound to emasculate the averaging effect by using zero as the amount of tax preferences for these years. The best solution is to consider in the average only those years ending after December 31, 1969.

My final comment on the earned income rate limitation is that in my judgment it will be a permanent element of our income tax system. The Administration strongly supports this provision, and there seems to be general agreement that it is a soundly-conceived improvement in our progrèssive rate structure.

In the case of the new restricted property rule, the principal interpretative problem is the meaning of the phrase "substantial risk of forfeiture". This new restricted property provision is designed to prevent a taxpayer from obtaining the benefit of both deferral of tax (on the ground that his ownership was "restricted" and thus too incomplete to be valued and taxed) and capital gain treatment on the intervening appreciation in value (perversely on the ground that his ownership was complete enough to constitute an investment). Under the new rule, he is taxed on the value of the property at once unless it is subject to a substantial risk of forfeiture, in which case the taxpayer is taxed on the value of such property when such risk ends.

New section 83(c) states that conditioning an employee's rights on the future performance of substantial services is a substantial risk of forfeiture, but the Committee reports make it clear that this is not an exclusive test. Ordinarily a covenant not to compete or an agreement to provide consulting services will not constitute a substantial risk of forfeiture in view of the fact that these conditions are wholly within the employee's control. However, in special cases, a covenant not to compete could constitute such a risk, as when it constitutes a major constraint on the employee's normal working activities and sources of income under circumstances where he could otherwise be expected to compete.

Section 404(a)(5) was amended by the 1969 Act to insure that in the case of restricted stock or interests in a nonqualified trust, the employer's deduction will in all cases be allowed at the same time and in the same amount as the employee's income. In the case of unfunded plans, the employer's deduction will continue to be allowed at the time of payment. A question arises where the amount constitutes death benefits and as such is taxable, but only to the extent it exceeds $5,000, to the employee's beneficiary rather than the employee himself. It was not intended that the employer be denied a deduction in such cases, and the regulations should continue to provide that the deduction is allowable when the amount is paid even though it is taxable to a taxpayer other than the employee or it may be excluded fully from gross income.

Real Estate

The 1969 Act added Code section 167(k) providing for 5-year amortization of the cost of rehabilitating low and moderate income residential housing. This provision has attracted great interest, and our principal interpretative difficulty as one might suspect, has been the definition of "low and moderate income".

Proposed regulations under section 167(k) were published on August 3, 1970. They define low and moderate income as family income not in excess of 150 percent of the income eligibility levels for public housing in the local area.

While the class covered by this definition is generally comparable to that benefitted by current FHA programs, there are significant differences. Under the FHA section 236 program, a family qualifies to occupy federally subsidized housing if its "adjusted income" does not exceed 135 percent of the local income eligibility limits for public housing. In computing such "adjusted income", FHA generally allows a deduction of 5 percent of total income plus $300 for each dependent. In addition, amounts earned by dependents are not taken into account. The gross family income may be much higher than our 150 percent standard would allow.

Furthermore, FHA is authorized on a case by case basis to admit families to section 236 units if their incomes do not exceed 90 percent of median income, which in some areas will exceed 135 percent of local income levels.

The effect of these differences is that in some cases families who would qualify to occupy FHA subsidized low and moderate income housing would not qualify as low or moderate income families for purposes of section 167(k). Many protests urge that where a rehabilitated unit is deemed eligible for FHA assistance under the section 236 program, it should automatically be eligible for the fast writeoff under section 167(k).

This rule would obviously simplify compliance by the taxpayer; he need only meet a single set of criteria to qualify for the direct subsidy and the tax incentive. This may be especially important in the case of the small developer with limited knowledge of tax laws and procedures. On the other hand, the standard in the proposed regulation has the virtue of absolute simplicity and certainty, and it provides greater assurance that the beneficiaries of the tax incentive will be persons most in need of assistance. The problem is a difficult one, and we will reexamine the rule adopted in the proposed regulations in light of the protests and further information obtained from FHA.

The revision of the accelerated real estate depreciation rules in the 1969 Act raises some new questions. In order to qualify for 200 percent declining balance or SYD depreciation, at least 80 percent of the gross income from a building must be derived from "dwelling units". The term "dwelling unit" is defined in section 167(k)(3)(C) as, in general, a house or apartment used to provide living accommodations. The proposed regulations under section 167(k) indicate that a unit will qualify if it contains facilities normally found

4 YC

in permanent living accommodations, "such as a kitchen and sleeping accommodations".

In many retirement homes, residents' apartments do not contain separate kitchen units; central dining facilities are provided. It seems clear that a retirement home should qualify since it constitutes permanent housing for the elderly, so the definition of a dwelling unit for purposes of the accelerated depreciation provisions must be broadened.

* * *

We are determined to provide firm answers to all the interpretive questions we can identify, and without undue delay. In formulating initial drafts of regulations, we have been greatly aided by the informed comments of tax experts questioning application of various statutory provisions to a variety of factual situations encountered in the real world and suggesting thoughtful solutions. This is a vital part of the regulations process; we urge that you continue to help mold our regulations in the shape of your experience. Summing up, we think that the regulation process basically is running well, somewhat slower than we would like, but with precision and inexorable forward progress.

o O o

The Department of the TREASURY NEWS

ASHINGTON, D.C. 20220 TELEPHONE W04-2041

FOR IMMEDIATE RELEASE October 21, 1970

DECISION ON FROZEN FRENCH FRIED POTATOES UNDER ANTIDUMPING ACT

The Treasury Department announced today the issuance of a tentative determination of no sales at less than fair value in connection with its antidumping investigation of frozen french fried potatoes manufactured by McCain Foods, Ltd., Florenceville, New Burnswick, Canada.

The notice will be published in the Federal Register on October 22, 1970.

Information gathered in this investigation shows that the price to buyers in the home market was lower than the price to buyers in the United States.

Appraisement of the above-described merchandise from Canada has not been withheld.

The importations from January 1969 through May 1970 were valued at approximately $431,345.

oOo

The Department of the TREASURY

WASHINGTON, D.C. 20220 TELEPHONE WO4-2041

NEWS

October 22, 1970

FOR IMMEDIATE RELEASE

NOTICE OF CLOSING HOUR FOR RECEIPT OF SUBSCRIPTIONS
TO CURRENT TREASURY NOTE OFFERING

The Treasury Department today called particular attention to the time its books will be open for subscriptions in the current offering of Treasury Notes. In announcing the offering it stated:

"Subscription books for the exchange offering will be open until 8:00 p.m., local time, Thursday, October 29, 1970. To be timely subscriptions MUST BE RECEIVED by a Federal Reserve Bank or Branch or by the Office of the Treasurer of the United States by such time, except that subscriptions addressed to a Federal Reserve Bank or Branch or to the Office of the Treasurer of the United States postmarked before midnight Wednesday, October 28, 1970, will be deemed to be timely. Banks need submit by the closing hour only the total amount of customers' subscriptions for each new issue, provided that the usual detailed information for such subscriptions is furnished by Friday, October 30."

The Department of the Treasury

WASHINGTON, D.C. 20220 TELEPHONE W04-2041

NEWS

4/5

FOR IMMEDIATE RELEASE

WASHINGTON, D. C.
October 22, 1970

TREASURY ANNOUNCES NOVEMBER FINANCING PLANS

The Treasury announced today that it is offering holders of the $7.7 billion of 5% Treasury Notes of Series A-1970 maturing November 15, 1970, the right to exchange their holdings for a 3-1/2-year Treasury note or a 5-year 9-month 7-1/2% Treasury note. The public holds about $6.0 billion and Government accounts and Federal Reserve Banks hold about $1.6 billion of the notes eligible for exchange.

The notes being offered in exchange are:

7-1/4% Treasury Notes of Series D-1974, dated November 15, 1970, due May 15, 1974, at par; and

An additional amount of 7-1/2% Treasury Notes of Series C-1976, dated October 1, 1969, due August 15, 1976, at 100.50 (to yield about 7.39%) and accrued interest from August 15 to November 15, 1970 ($18.75 per $1,000); $1.7 billion of these notes are outstanding.

Subscription books for the exchange offering will be open until 8 p.m., local time, Thursday, October 29, 1970. To be timely subscriptions MUST BE RECEIVED by a Federal Reserve Bank or Branch or by the Office of the Treasurer of the United States by such time, except that subscriptions addressed to a Federal Reserve Bank or Branch or to the Office of the Treasurer of the United States postmarked before midnight Wednesday, October 28, 1970, will be deemed to be timely. Banks need submit by the closing hour only the total amount of customers' subscriptions for each new issue, provided that the usual detailed information for such subscriptions is furnished by Friday, October 30.

Cash subscriptions will not be accepted.

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 November 15, 1970, on notes tendered in exchange should be detached and cashed when due. The November 15, 1970, interest due on registered notes will be paid by issue of interest checks in regular course to holders of record on October 15, 1970, the date the transfer books closed.

The payment and delivery date for the notes will be November 16.

he Department of the TREASURY NEWS
ISHINGTON, D.C. 20220 TELEPHONE WO4-2041

FOR RELEASE AT 6:00 P.M., EDT, OCTOBER 23, 1970

REMARKS OF THE HONORABLE DAVID M. KENNEDY
SECRETARY OF THE TREASURY
BEFORE
THE ANNUAL SPONSORS' DAY DINNER
GRADUATE SCHOOL OF BUSINESS ADMINISTRATION
THE UNIVERSITY OF VIRGINIA
CHARLOTTESVILLE, VIRGINIA
FRIDAY, OCTOBER 23, 1970, 9 P.M. EDT

It is a great pleasure and honor to take part in your annual Sponsors' Day.

The partnership of business and the University of Virginia that you observe on this occasion testifies to the value of close cooperation between our nation's business and its universities. Because of your cooperative efforts, the Graduate School of Business Administration has become a leading center for the management education and research that are so essential to the continued progress of our business and industry.

I appreciate the opportunity you have given me to discuss with you our economic situation and the outlook for the future. I would like to begin my remarks by saying I am pleased by our present progress and optimistic about the future.

-- We clearly are winning the battle against inflation.

-- We have curbed the excess demand that brought inflation and have accomplished that difficult job with only a mild slow-down of the economy.

-- We now see the beginning of a sounder and more sustainable economic upturn.

From the start of the Administration's fight against inflation some 21 months ago, we have followed anti-inflation policies that are in keeping with the philosophy of the founder of your University, Thomas Jefferson. We have rejected government controls over our free markets and our free society and have relied instead on policies more appropriate to a nation of free citizens -- policies of economic restraint.

We have rejected economic controls both for reasons of philosophy and for practical considerations. The latter -- the fact that experience has shown that controls only mask the underlying problems and would have been of little real help in the present situation -- has entered heavily into our decision. However, we were also intensely aware that controls -- whatever the type and degree -- are a threat to the individual freedoms of the American people. In the words of President Nixon, "Economic domination, like any other government domination, is dangerous to a free society..."

Instead of trying to control the actions and choices of American workers and American business and industry, we have followed policies which I believe represent a better, wiser, and safer use of the powers of government. We have restrained government expenditures and held down the growth of the money supply. In the process, we have maintained traditional freedoms, while controlling and reducing the forces that were primarily responsible for the start and build-up of the present inflation.

By this time, there should be little doubt that our policies of fiscal and monetary restraint are succeeding.

Admittedly, they did not check the inflationary spiral as quickly as we had hoped and expected. Inflation, and public belief that it would continue, had taken a much stronger hold in the years 1965 to 1969 than we realized. But today, the signs that inflation is abating are unmistakable.

Progress will not always be even, of course. As we have seen, it will sometimes be interrupted by pauses or turns, particularly in the more volatile economic indicators. However, an occasional interruption does not constitute a trend, and in most important respects the economic trends now are quite favorable.

-- The rise in consumer prices has declined from a yearly rate of more than 6 percent in 1969 to a rate of a little more than 4 percent over the last three months.

-- The rise in wholesale prices in the past 6 months was at an annual rate of 2 percent, compared with a rate of 5-1/2 percent in the previous half year.

-- Personal income continues to go up and has increased by nearly 7-1/2 percent so far this year over the comparable period in 1969.

-- Interest rates have dropped substantially from the record highs of last year. Treasury bill rates, for example, are down two percentage points from their high of last year.

-- Real gross national product rose slightly in the second quarter, and there was a moderate increase in the third quarter, despite the auto strike.

Because of these and other favorable trends and developments, I am convinced that inflation is subsiding and that the economy is again beginning to expand, and to expand in an orderly fashion.

In the period ahead, several sectors of the economy should provide support for continued expansion.

Consumers may be expected to spend more. Much of the special additions to their income this year, including higher social security benefits and phasing out of the income tax surcharge, has been saved, rather than spent. Experience tells us that this will change, and consumers will begin to spend more of their higher incomes.

Unlike the case in previous economic slow-downs, inventories this time have not become excessive. Consequently, as sales improve, production for inventories will give added strength to the expansion.

In recent months funds have again accumulated at mortgage-granting institutions, and home-building starts have risen and should continue to increase.

There also is a good likelihood of an upturn in business investment. In fact, business concerns reported last quarter that they planned higher expenditures on plant and equipment.

Our exports again are showing an improved position. The trade balance showed a $4.6 billion annual rate over the last three months.

Finally, I believe that expansion will be encouraged by additional spending by State and local governments. State and local needs remain heavy, and the lowering of bond yields will help these governments to raise the necessary funds for new and enlarged facilities and services.

With renewed growth of the economy will come additional jobs, and a start toward correcting the rise in unemployment and the personal hardship suffered by those who have lost their jobs.

Unemployment has risen in recent months, not only because of the mild economic slow-down we have passed through, but also because the Administration has been speeding the release of men from the armed forces and reducing defense expenditures so that additional funds will be available for urgent domestic needs. In effect, we have been working simultaneously toward two goals -- curbing inflation and pressing the transition from a war-time to a peace-time economy.

Over the past year, the number of military and civilian employees of the Defense Department has been reduced by more than one-half million. In addition, employment in defense plants has been cut back by 200,000. These reductions in military and defense-related jobs have added substantially to the present rate of unemployment.

We deplore this loss of jobs, even though the alternatives to a mild slow-down would have been much worse, and even though the loss has resulted in part from directing more of our national resources to education, health and other human needs. We want jobs available for all Americans. That is our objective -- and just as I am confident that we are winning the fight against inflation and beginning a new economic upturn, I am equally confident that we will attain the objective of full employment.

The recent improvement in price performance has resulted from the slowing of demand and from a significant increase in industrial productivity since the second quarter of this year. During the coming months, productivity will probably rise at least as fast as the long-run average rate of about 3 percent a year. This should further slow the rise of prices, and in turn make smaller wage settlements more acceptable to workers because they will represent real gains in purchasing power.

Obviously, we still have some distance to go before reasonable price stability is restored. I believe it is essential, therefore, that we avoid the mistake of too rapid and forced expansion of the economy. As I see it, the task of government now is to follow fiscal and monetary policies that will promote a moderate and orderly economic expansion while continuing our progress toward a reasonable degree of price stability.

I am optimistic that we can establish such a suitable pace of expansion. It should be easier to promote a gradual and balanced expansion than it was to cool down an overheated economy without causing a recession. However, once again, the proper combination of fiscal and monetary policies will be all-important.

On the fiscal side, prospective Federal expenditures over the next year or so are of greater concern than the particular size of the budget deficit that may emerge. During transitional periods like the present one, when economic growth has been slow and government revenues are weak, a budget deficit is unavoidable. Furthermore, in these circumstances, financing the deficit poses no difficult problems.

On the other hand, if the deficit is accompanied and swollen by a rapid growth in Federal expenditures, we will face an entirely different set of affairs.

Fast-mounting Federal expenditures and large deficits would inevitably limit the freedom of monetary authorities to expand money and credit and rebuild liquidity. Such deficits, furthermore, would push interest rates back up and tend to renew an unbalanced flow of credit.

In short, a large and growing Federal deficit -- resulting primarily from a rapid rise in Federal expenditures -- would again place great strain on the credit markets.

The point here is not the absolute size of the deficit, but the impact of the necessary government borrowing on the flow of funds through the credit markets and on their ability to meet demands. Placing heavy Federal demands on the market means upward pressure on interest rates and diversion of funds away from potential private borrowers and State and local governments.

The President has said that it would be appropriate, in the present economic setting, to hold Federal outlays within the revenues that will be generated when we reach full enployment. That is a sound budget rule. If Congress will cooperate with the Administration in applying it, we can keep fiscal policy in a stabilizing position and provide for a budget surplus at high employment. In addition, the government's borrowing needs will remain within the capacity of the credit markets, thus helping to insure a continuation of the present trend toward lower interest rates.

When the Governors of the International Monetary Fund and the World Bank met in Copenhagen a few weeks ago, many of our discussions centered on the inflationary pressures that exist in many nations today. Few if any countries are satisfied with their recent price records. Certainly we are not, despite the fact that we have made greater progress toward price stability than most other industrial nations.

As I indicated to my fellow Governors, we recognize the special responsibility of the United States to curb inflation because of our place in the world economy, and the importance of a strong dollar to the international financial system. I assured these officials of other nations -- as I wish to assure you this evening -- that we are making progress toward fulfilling our responsibility.

I am convinced that we can now look forward to much better price performance and a gradually increasing rate of economic expansion. We must guard against too rapid a growth of demand that might again cause overheating of the economy and must continue to keep government spending below the limits set by our revenue potential at high levels of income and employment.

If we follow that course -- a course which avoids the mistakes of the past -- we can look forward to a sound and steady economic advance, and to the prospect of fuller employment and greater price stability.

oOo

487

he Department of the TREASURY NEWS

SHINGTON, D.C. 20220 TELEPHONE WO4-2041

TTENTION: FINANCIAL EDITOR

OR RELEASE 6:30 P.M.,
onday, October 26, 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 July 30, 1970 , and he other series to be dated October 29, 1970 , which were offered on October 20, 1970, ere opened at the Federal Reserve Banks today. Tenders were invited for $ 1,800,000,000, r thereabouts, of 91-day bills and for $1,400,000,000, or thereabouts, of 182-day ills. The details of the two series are as follows:

ANGE OF ACCEPTED OMPETITIVE BIDS:	91-day Treasury bills maturing January 28, 1971		:	182-day Treasury bills maturing April 29, 1971	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	98.539	5.780%	:	96.911	6.110%
Low	98.516	5.871%	:	96.902	6.128%
Average	98.526	5.831% 1/	:	96.908	6.116% 1/

7% of the amount of 91 -day bills bid for at the low price was accepted
100% of the amount of 182-day bills bid for at the low price was accepted

TAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	:	Applied For	Accepted
Boston	$ 29,240,000	$ 19,240,000	:	$ 18,280,000	$ 7,450,000
New York	1,892,285,000	1,200,945,000	:	2,184,820,000	1,224,325,000
Philadelphia	46,025,000	31,025,000	:	13,645,000	9,075,000
Cleveland	47,790,000	44,070,000	:	44,365,000	19,605,000
Richmond	17,585,000	17,585,000	:	20,040,000	10,040,000
Atlanta	42,420,000	31,220,000	:	36,805,000	17,000,000
Chicago	223,395,000	200,745,000	:	238,945,000	36,120,000
St. Louis	53,285,000	52,820,000	:	31,445,000	17,845,000
Minneapolis	34,635,000	23,625,000	:	24,230,000	4,630,000
Kansas City	30,400,000	29,400,000	:	23,190,000	17,090,000
Dallas	28,135,000	20,135,000	:	25,520,000	12,020,000
San Francisco	169,905,000	129,605,000	:	246,885,000	25,375,000
TOTALS	$2,615,100,000	$1,800,415,000	a/	$2,908,170,000	$1,400,575,000 b/

/ Includes $336,960,000 noncompetitive tenders accepted at the average price of 98.526
/ Includes $187,665,000 noncompetitive tenders accepted at the average price of 96.908
/ These rates are on a bank discount basis. The equivalent coupon issue yields are 6.00% for the 91 -day bills, and 6.40% for the 182-day bills.

C-487

The Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE W04-2041

FOR IMMEDIATE RELEASE October 27, 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 $3,200,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing November 5, 1970, in the amount of $3,111,930,000 as follows:

91-day bills (to maturity date) to be issued November 5, 1970, in the amount of $1,800,000,000, or thereabouts, representing an additional amount of bills dated August 6, 1970, and to mature February 4, 1971, originally issued in the amount of $1,299,640,000, the additional and original bills to be freely interchangeable.

182- day bills, for $1,400,000,000, or thereabouts, to be dated November 5, 1970, and to mature May 6, 1971, (CUSIP No. 912793 KGO).

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, $15,000, $50,000, $100,000, $500,000 and $1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Standard time, Monday, November 2, 1970. Tenders will not be received at the Treasury Department, Washington. Each tender must be for a minimum of $10,000. Tenders over $10,000 must be in multiples of $5,000. 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 **November 5, 1970,** in cash or other immediately available funds or in a like face amount of Treasury bills maturing **November 5, 1970.** Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

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 considered to accrue when the bills are sold, redeemed or otherwise disposed of, and the bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder must include in his income tax return, as ordinary gain or loss, the difference between the price paid for the 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.

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.

oOo

746

The Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE WO4-2041

FOR RELEASE UPON DELIVERY

REMARKS OF THE HONORABLE EUGENE T. ROSSIDES
ASSISTANT SECRETARY OF THE TREASURY
for
ENFORCEMENT AND OPERATIONS
before the
AMERICAN IMPORTERS ASSOCIATION
AMERICANA HOTEL, NEW YORK CITY

October 28, 1970 1:15 P.M.

President Nixon's Anti-Drug Abuse Action Program

Speaking before the United Nations General Assembly last week, President Nixon said:

> "It is in the world interest that the narcotics traffic be curbed. Drugs pollute the minds and bodies of our young, bring misery, violence, and human and economic waste. This scourge of drugs can be eliminated through international cooperation."

The problem of drug abuse was not created overnight, and it will not be cured overnight. The drug problem of the 1950's became the drug crisis of the 1960's. It will take hard work and cooperative effort in the 1970's by many groups on the international, national, State and local levels to win this battle.

President Nixon has responded to the challenge by a multi-faceted action program:

First: he has elevated the drug problem to the foreign policy level and has taken personal initiatives in soliciting the cooperation of other governments.

Second: he has recognized the short- and long-term importance of education and has expanded research and rehabilitation efforts by providing for increased funds in these essential areas.

Third: he has been sensitive to the differences between narcotic, psychotropic and hallucinogenic drugs, and recommended a flexible criminal penalty structure based upon those differences. This has included for the first time on the Federal level a differentiation in the criminal penalty structure between heroin and marijuana.

Fourth: he has backed drug law enforcement with substantially increased budgetary support; and

Fifth: he has stressed the need for cooperation by our Federal government with our States and for total community involvement in the solution of the problem.

The multi-dimensional program of President Nixon has, in my judgment:

1. arrested the United States' incredible downward slide into drug abuse, although we have a long and steep climb ahead of us to return to the level from which we fell; and

2. alerted the international community to the global problem of drug abuse. This is world leadership of the highest order.

Foreign Policy and Presidential Initiative

One of this nation's serious errors of the past was the failure to appreciate drug abuse as a worldwide problem calling for an international response. Prior to this Administration, international activity by the United States was primarily on the enforcement level.

President Nixon recognized the heart of the problem and corrected it by raising drug abuse to the foreign policy level and has taken personal initiatives in eliciting the cooperation of other governments.

The result of this major change in the approach of the Executive Branch was to make the Department of State, as the primary representative for communicating to foreign governments the vital interest of the United States, responsible for doing everything necessary to advance our anti-drug abuse policy through diplomacy.

Secretary of State William P. Rogers has given high priority and personal leadership to the Department of State's efforts in this area. One of his early acts was the creation of the position of Special Assistant to the Secretary of State for Narcotics Matters, whose duty it is to coordinate and push forward the various elements of the campaign against drugs which have foreign relations implications. He appointed a senior Foreign Service Officer to this post.

This new role of the State Department in the Administration's war on drugs has had a unique and important 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.

Recently, as an example, the United States has exploited fully the opportunities afforded by international institutions to focus the resources of the world community on the drug abuse problem. The United Nations Commission on Narcotic Drugs recently completed a week-long special session designed to strengthen international efforts within the framework of the Single Convention on Narcotic Drugs of 1961. A few weeks ago, I had the privilege of leading the United States Delegation of the 39th Annual General Assembly of Interpol at Brussels, where this matter was the subject of a great deal of productive attention. Thus, through the use of diplomacy, we continue to advance substantially our anti-drug abuse objectives.

Education, Research, and Rehabilitation

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 sources, 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. Implicit is the belief that the vast majority of youth, when given access to the facts, will reject drug abuse as against their self-interest and the interest of their nation as a whole.

President Nixon is convinced that much of our problem is attributable to the mass of mis-information 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, our 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.

Backing up this commitment, the President 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.

Through the Department of Defense, our Federal Government is reaching thousands of military personnel who have been using drugs but who the Department of Defense believes can be rehabilitated. An intensive rehabilitation program, down to the command level, is currently in progress and being expanded. We hope to learn from the Department of Defense program lessons which can be applied outside of the military framework.

Differentiation in Penalty Structure Between Heroin and Marijuana

It was this Administration's decision to reverse the traditional approach to marijuana by differentiating in the penalty structure between heroin, a true narcotic, and marijuana, an hallucinogen. Both were treated the same under the law just repealed. The President's decision to seek revised penalties for marijuana violations has gone far toward achieving another Administration goal: credibility with the young.

Under the new Administration Drug bill, the first offender gets a second chance. This opportunity is afforded them because of their youth -- not because the usual first offense drug, marijuana, is considered lightly. As parents, we must all bear in mind that the use of marijuana is a manifestation of the so-called drug sub-culture which encourages further experimentation with a wide variety of drugs. A heavy marijuana user is more likely to become a multiple drug user. Even those who argue the brief for marijuana admit that at least five percent of marijuana users go on to the horror of heroin addiction. Others have estimated the figure to be 20 percent or higher.

In short, we know that there is no good to be derived from marijuana use and danger is ever present. As a result of the studies currently under way by NIMH, we expect to know more in the future, but my message to you today is that we know sufficient about it now to reject it and attempt to guard our young people from it.

Law Enforcement

Drug law enforcement is a difficult and dangerous business. It demands the highest standards of professional competence of enforcement agents. President Nixon has increased substantially the budgets of the two Federal agencies primarily concerned with drug law enforcement -- the Bureau of Narcotics and Dangerous Drugs of the Department of Justice (BNDD) and the Treasury's Bureau of Customs.

To meet the smuggling challenge in the drug field, Treasury Agents of the Customs Bureau work closely with BNDD agents. The degree of cooperation between the two agencies has never been better. BNDD agents are in Customs offices along the Mexican-United States border and Customs Agents are in BNDD offices abroad.

The burdens carried by these agencies are illustrated by the record of the Treasury Agents of the Customs Service, who in 1969 worked over 111,000 hours on their own time without pay to meet the challenge of drug abuse.

In enforcing the law, only half the job is done when the suspected violator is arrested. Society is not protected until a jury is persuaded of guilt beyond a reasonable doubt. Skillful prosecution is necessary.

The Department of Justice is meeting this challenge with a new aggressiveness inspired by this Administration, backed up by substantial funding for the narcotics prosecution section of the Department.

Multi-level Cooperation and Community Involvement

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.

President Nixon's commitment to State cooperation in the battle against drug abuse is typified by the State Governors' Conference at the White House, held last December, to facilitate the closest possible coordination 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 with the establishment of a committee of the Governors on organized crime with particular emphasis on the drug traffic.

My friends, I doubt that there is one of us here, who is a parent, across whom the shadow of drug abuse has not fallen. It has either affected directly our own family, or that of someone we know. Although we have stopped our downward slide, let there be no false optimism. The road ahead is long and hard, and all of us, without exception, must walk it together.

The Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE WO4-2041

ATTENTION: FINANCIAL EDITOR

FOR RELEASE 6:30 P.M.,

Tuesday, October 27, 1970

RESULTS OF TREASURY'S MONTHLY BILL OFFERING

The Treasury Department announced that the tenders for two series of Treasury bills, one series to be an additional issue of the bills dated July 31, 1970, and the other series to be dated October 31, 1970, which were offered on October 20, 1970, were opened at the Federal Reserve Banks today. Tenders were invited for $500,000,000, or thereabouts, of 271-day bills and for $ 1,200,000,000, or thereabouts, of 365-day bills. The details of the two series are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	271-day Treasury bills maturing July 31, 1971		:	365-day Treasury bills maturing October 31, 1971	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	95.395	6.117%	:	93.876 [a]	6.040%
Low	95.333	6.200%	:	93.787	6.128%
Average	95.368	6.153% [1]	:	93.844	6.072% [1]

[a] Excepting 3 tenders totaling $3,000,000

19% of the amount of 271-day bills bid for at the low price was accepted
54% of the amount of 365-day bills bid for at the low price was accepted

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	:	Applied For	Accepted
Boston	$ 10,570,000	$ 570,000	:	$ 19,120,000	$ 2,120,000
New York	1,058,340,000	399,760,000	:	1,690,935,000	979,215,000
Philadelphia	1,210,000	1,210,000	:	3,550,000	3,550,000
Cleveland	2,380,000	2,380,000	:	8,215,000	7,715,000
Richmond	270,000	270,000	:	11,370,000	11,370,000
Atlanta	14,170,000	6,890,000	:	19,300,000	11,950,000
Chicago	43,415,000	42,415,000	:	134,705,000	126,805,000
St. Louis	10,130,000	10,130,000	:	12,650,000	11,150,000
Minneapolis	7,025,000	6,025,000	:	7,255,000	6,255,000
Kansas City	2,185,000	2,085,000	:	10,945,000	8,945,000
Dallas	14,135,000	3,135,000	:	15,495,000	5,495,000
San Francisco	57,670,000	25,240,000	:	71,445,000	25,445,000
TOTALS	$1,221,500,000	$ 500,110,000 [b]		$ 2,004,985,000	$1,200,015,000 [c]

[b] Includes $19,855,000 noncompetitive tenders accepted at the average price of 95.368

[c] Includes $63,225,000 noncompetitive tenders accepted at the average price of 93.844

[1] These rates are on a bank discount basis. The equivalent coupon issue yields are 6.47% for the 271-day bills, and 6.46% for the 365-day bills.

495

e Department of the TREASURY NEWS

HINGTON, D.C 20220 TELEPHONE WO4-2041

QUALIFICATIONS FOR CUSTOMS SECURITY OFFICERS Oct. 28, 1970

To qualify as a Customs Security Officer, an applicant must be a U.S. citizen, at least 21 years of age, and pass a rigid physical and psychological examination. Candidates must successfully complete a four-week training course, including qualifying to Secret Service standards in the use of firearms. Candidates will be drawn from the Federal Service Entrance Examination and the Junior Federal Assistant Examination Register maintained by the Civil Service Commission. In addition, recently discharged military personnel may also be appointed under provisions of the Veterans'Readjustment Appointment Program. Applicants should demonstrate the ability to do two or more of the following:

Deal effectively with individuals and groups of persons.

Exercise originality, sound judgment, and make speedy decisions.

Interpret and correctly apply regulations or instructions.

Prepare clear and concise written reports.

TO APPLY: ALL APPLICANTS MUST:

--Contact the local Civil Service Commission Area Office and establish eligibility;

or

--If you qualify on the basis of your recent military experience and have not established eligibility on an examination, contact the nearest Customs personnel office.

All candidates will receive consideration without regard to race, color, creed, or national origin.

Appointment to the CSO position will be made at salaries ranging from $5,853 to $8,098, depending upon a candidate's experience and qualifications.

U75

e Department of the TREASURY NEWS

GTON, D.C. 20220 TELEPHONE W04-2041

FOR IMMEDIATE RELEASE October 28, 1970

SECRETARY KENNEDY AND SECRETARY VOLPE ANNOUNCE SKY MARSHAL MANPOWER AGREEMENT

At the signing today of an Interdepartmental Agreement relating to air piracy prevention, Secretary of the Treasury David M. Kennedy and Secretary of Transportation John A. Volpe announced:

The Treasury Department will provide to the Federal Aviation Administration the permanent sky marshal force. The force will fly aboard U.S. commercial aircraft and will conduct predeparture inspections of air passengers. These men will eventually replace the present force composed of temporary personnel from the Departments of Transportation, Defense, Justice, and Treasury.

On September 11, following a series of international hijacking incidents, President Nixon ordered a cooperative interdepartmental program to protect American citizens and aircraft. The Agreement we signed today is an important part in implementing this program.

The Bureau of Customs will provide Customs Security Officers for duty with FAA. They will be trained by the U. S. Secret Service, and the consolidated Federal Law Enforcement Training Center.

Lt. General B.O. Davis (USAF-Ret.), Director of Civil Aviation Security for DOT, will serve as coordinator of the Security Force. Coordinator for the Treasury Department is Eugene T. Rossides, Assistant Secretary for Enforcement and Operations.

K-516

oOo

L-14

The Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE W04-2041

FOR IMMEDIATE RELEASE October 28, 1970

TREASURY ANNOUNCES TWO FINAL DETERMINATIONS UNDER ANTIDUMPING ACT

Assistant Secretary of the Treasury Rossides announced today that ferrite cores (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 of 1921, as amended.

Mr. Rossides also announced that he is issuing a final negative determination with respect to loudspeakers from Japan.

Notice of these determinations will be published in the Federal Register of October 29, 1970. The ferrite core case is now being referred to the Tariff Commission for determination as to whether injury exists.

Approximately $650,000 of ferrite cores were imported from Japan in the first eight months of 1970. The total value of Japanese loudspeaker imports was slightly under 46 million dollars for the period January 1, 1968, through April 30, 1970.

Interested parties had an opportunity during these antidumping investigations to present their views both orally and in writing. These were fully taken into account before the final decisions were reached.

o0o

419/

The Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE WO4-2041

FOR RELEASE IN A.M.'S
FRIDAY, OCTOBER 30, 1970

ROBERT V. MCINTYRE APPOINTED U.S. REPRESENTATIVE TO THE CUSTOMS COOPERATION COUNCIL

Assistant Secretary of the Treasury for Enforcement and Operations Eugene T. Rossides announced today the appointment of Robert V. McIntyre, Assistant Commissioner of Customs, as the permanent United States representative to the Customs Cooperation Council.

The Council, which has its headquarters in Brussels, Belgium, is an international organization devoted to aiding international trade through simplification of Customs procedures, and by working toward uniformity in classification and valuation of merchandise.

President Nixon recently signed into law a Congressional enactment which permits the United States to become an active member in the Customs Cooperation Council.

The United States has, upon invitation of the Customs Cooperation Council, participated in an observer status in meetings of the Council over a period of years. Rossides said: "The new legislation and the appointment of Mr. McIntyre will permit Treasury's Bureau of Customs to take a full role in the meetings of the Council and its Permanent Technical Committee, as well as to participate more actively in the work of other committees of the Council."

oOo

c/96

he Department of the TREASURY NEWS

HINGTON, D.C. 20220 TELEPHONE W04-2041

FOR RELEASE UPON DELIVERY

EXCERPTS OF REMARKS BY EUGENE T. ROSSIDES
ASSISTANT SECRETARY OF THE TREASURY
FOR ENFORCEMENT AND OPERATIONS
to the
LUNCHEON OF THE ST. JOHN'S UNIVERSITY
COLLEGE OF BUSINESS ADMINISTRATION
FOURTEENTH ANNUAL BUSINESS CONFERENCE
HOTEL COMMODORE, NEW YORK, NEW YORK
October 29, 1970 1 p.m.E.S.T.

THE NIXON ADMINISTRATION'S REFORM PROGRAM TO COMBAT THE ILLEGAL USE OF SECRET FOREIGN BANK ACCOUNTS

> "Did you, at any time during the taxable year, have any interest in or signature or other authority over a bank, securities, or other financial account in a foreign country?"

This question, with slight variations, will appear on the 1970 tax return of all U.S. citizens, residents, domestic corporations, partnerships, trusts, and estates. Taxpayers answering the question affirmatively will be required to file an additional short form, Form 4683, with specific information concerning the foreign account. It represents part of the Nixon Administration program to control the use of secret foreign financial accounts to further illegal activity.

Last Monday, another significant part of this program was put into effect when President Nixon signed H.R. 15073, commonly referred to as the Foreign Bank Secrecy Bill. This bill recognizes that organized and white collar criminals use secret foreign accounts to assist in concealing both substantive violations of securities, gambling, gold trading, currency and smuggling laws on the one hand, and the untaxed income generated from these illegal activities on the other.

Legislation such as this is a valuable asset in the effort against illicit foreign financial transactions. However, it is only one part of a comprehensive four-part program launched by this Administration:

FIRST: We have elevated this problem to the foreign policy level. We have initiated discussions with foreign governments to define more precisely where cooperation can be provided to the United States in criminal matters involving foreign bank accounts.

SECOND: We have conducted and are continuing with a comprehensive review of current procedures to define and determine what further actions can be taken pursuant to existing statutes and treaties. The question on the 1970 tax return, with which I opened my remarks, is one of these measures being authorized under existing legislation.

The Internal Revenue Service presently is thoroughly reviewing its operations, including its audit procedures, to develop more effective internal procedures for uncovering cases of tax fraud involving the use of foreign bank accounts, as well as for compiling and constructing solid evidentiary records in these cases. New guidelines are being established to aid Treasury Agents of the Internal Revenue Service in handling investigations of taxpayers who employ or are believed to employ secret foreign bank accounts.

THIRD: We encouraged, supported, and considerably strengthened H.R. 15073, and were successful in having had eliminated several provisions of the original bill which would have permitted unwarranted invasions of privacy and would have required unjustifiably burdensome paperwork.

Aspects of this new legislation which will be utilized to curb the illegal use of these accounts include: (1) requiring recordkeeping or reporting by U.S. financial institutions and other persons of international transactions; (2) reporting exports and imports of currency and bearer instruments in amounts of $5,000 or more; and (3) authorizing a new improved system of Treasury Currency Reports of large currency transactions made through U.S. financial institutions.

All of these requirements will be limited to those records and reports which are determined to have a high degree of usefulness in criminal, tax, and regulatory investigations or proceedings.

FOURTH: Cooperation with the private sector--I want to thank the members of the business community for the high level of cooperation we have received so far, and I would especially like to thank the large banks which are members of the New York Clearing House. They provided us with much valuable background information on possible avenues of illicit activities,on foreign banking operations, and they offered many new and constructive suggestions for more effective legislative and administrative approaches that will benefit our enforcement efforts.

A major task for Treasury, which we have already begun, is the development of regulations under the new legislation. We will again be calling on the private sector to assist us in this endeavor. I know that, as before, cooperation of the business community will be forthcoming.

This four-point action program, directed against organized and white collar crime, constitutes an integral part of this Administration's anti-crime efforts.

he Department of the TREASURY NEWS

SHINGTON, D.C. 20220 TELEPHONE W04-2041

FOR RELEASE AT 9:00 A.M., CST (OR 10:00 A.M. EST)

REMARKS BY ERNEST C. BETTS, JR.
ASSISTANT SECRETARY FOR ADMINISTRATION
DEPARTMENT OF THE TREASURY
WTMJ-TV-AM-FM
MILWAUKEE, WISCONSIN
FRIDAY, OCTOBER 30, 1970

I'm delighted to be back in Milwaukee today for a number of reasons. First of all, it is always good to be "home" in my native state. Secondly, I have another opportunity to talk about one of my favorite subjects -- U.S. Savings Bonds and our national economy. And -- related to that -- I'm privileged to pay tribute to those Wisconsin citizens who have contributed so much to the success of our 1970 "Share in America" campaign. I mean, of course, George F. Kasten, Chairman, First Wisconsin National Bank -- our State Savings Bonds Chairman -- and H.B. Groh, President, Wisconsin Telephone Company -- our Metropolitan Milwaukee "Share in America" Chairman. While these leaders are singled out for thanks, I want to say to all citizens of Wisconsin who participate in the Savings Bonds program, you are also to be congratulated for your wise choice in participating in the program.

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

We all know the value of Savings Bonds to the individual holder as a nest egg -- a reserve for emergencies, retirement, a new home, education for the children, a well-earned vacation, and so on. But many of us have a rather imprecise view of the value of Savings Bonds to the management of the finances of our Government. We know they have something to do with fighting inflation and with managing the national debt. But we aren't quite sure how this is accomplished. And so I'd like to take a few minutes today to discuss briefly the character of the national debt -- and to relate the Savings Bonds Program to debt management.

To begin with, Savings Bonds are an important component of our entire Federal debt structure. Treasury debt totaled about $371 billion at the end of fiscal year 1970. Of that total, about $95 billion was held by Government accounts, such as the Social Security Trust Fund, Civil Service Retirement Fund, Unemployment Trust Fund, and others. The Federal Reserve System held about $58 billion of Treasury debt, which it had accumulated in the process of providing reserves to the banking system to support the orderly growth of the money supply. This left in the hands of the general public $218 billion of U.S. Treasury securities, about 60 percent of the total outstanding.

Of this $218 billion total, $158 billion is in the form of marketable securities, and a small additional amount ($8 billion) is in non-marketable securities other than Savings Bonds. The balance -- more than $52 billion -- is made up of E and H Bonds and Savings Notes (Freedom Shares). This $52-plus billion represents just under one-fourth of the $218 billion of Treasury obligations held by the general public.

But the importance of Savings Bonds in terms of managing the national debt is not fully reflected in this single fraction of one-fourth -- significant though it is. The fact is that Savings Bonds today, even with their shorter initial maturities, constitute the backbone of the Government's long-term debt.

Because of the 4-1/4 percent interest rate ceiling on Government bonds that dates from the first World War, the Treasury has been prevented from issuing any securities of more than 7 years to maturity since May 1965. Largely, as a result, the average maturity of the privately held marketable debt has declined from 5 years, 9 months, in 1965 to 3 years, 7 months. This is hardly a satisfactory or reassuring picture, from at least two points of view.

First, as the average maturity of the debt declines, this debt increasingly takes on the characteristics of money -- it becomes more liquid, and hence more "spendable," even at times, such as the present, when in the interests of curbing inflation there is a need to hold down spending.

Second, the short average maturity of the Government's debt is a reflection of a large volume of short-term securities that require constant refinancing in the capital markets. This job of refinancing can become one of considerable difficulty, not just for our debt managers, who are paid to worry about such things, but because of the impact on the capital markets on which private and municipal borrowers as well as the Federal Government depend. Even after eliminating Treasury bills, which come due as frequently as every 90 days, nearly $1 in $5 of the marketable securities held by the general public mature and must be refunded each year. This is a costly operation.

Against this backdrop, it is not difficult to understand why we are concerned that we continue to be able to count on a solid base of funds provided to the Government in the form of Savings Bonds. On the basis of past experience, we can predict that the Savings Bonds sold today, on the average, will not be redeemed for 5-1/2 years, considerably longer than dollars obtained through marketable issues. Therefore, Savings Bonds provide a high degree of stability to the management of the public debt.

This may sound strange, when one hears so often that Savings Bonds are cashed in practically as soon as they are bought. It is true that there are those who turn them in after the minimum waiting period, and early redemptions are a problem. But, by and large, our buyers do hold onto their Savings Bonds for longer periods of time. Every analysis we have made shows that, in comparison with deposits at commercial banks, savings and loan associations, and mutual savings banks, people hold their Savings Bonds longer.

I'd like to mention one other fact bearing upon the importance of Savings Bonds to the Government. It may surprise you, as it did me. Since the end of World War II financing -- the end of Calendar 1946 -- increased holdings of Savings Bonds represent a substantial part of the total increase in the amount of public debt in the hands of private holders. So that you are not misled by this statement, let me quickly say that this is primarily so, not because the net increase in Savings Bonds has been so large, nor because the budget deficits you have read about never really occurred, but rather because the Government trust funds and the Federal Reserve System have through their normal operations, absorbed a large part of the net increase in the outstanding public debt. Nevertheless, it is significant that through the end of Fiscal 1970 Savings Bonds and Notes provided $2.2 billion of the $9.7 billion net increase in the total amount of Government debt held by the general public between December 1946 and June 1970.

I think that we in the Federal bureaucracy are frequently reminded of the growing public debt and of its absolute size that we accept it as an important factor in our economic structure. However, it is necessary that we keep the debt in perspective. It is a fact as I have noted above that the public debt in the hands of private investors has grown relatively little since the end of 1946 and if we were to compare it to a point nearer the close of the war at the end of 1945 the debt held by the public has actually declined. Using another measure, the debt at the end of

World War II was somewhat greater than our total national output but growth in our output has reduced the relative size so that the $371 billion of total debt on June 30 of this past year represented a little over one-third of the gross national product. Similarly during this nearly quarter of a century while the public debt increased about 40 percent, corporate debt rose 600 percent, mortgage debt 900 percent, and consumer debt 2000 percent. Though these comparisons would be slightly altered if federally sponsored credit programs were included as Government expenditures, the rather popular notion of spiraling Federal debt is still not correct.

Taking a look at the current picture, it is true that the outlook for the Federal budget for 1971 looks rather murky. The last official estimate in May of a $1.3 billion deficit is clearly out of date due to several factors -- actions and inactions by the Congress, the economic downturn with lower receipts, and some increase in uncontrollable expenditures. We are heartened by the evidence that interest rates are declining, inflationary pressures are on the wane, and that the economic health of the nation seems to be improving.

I have tried to indicate in these remarks not only the importance of Savings Bonds in the past, but why I believe Savings Bonds will continue to be important to the Government and to the individual in the future. I would like to add that I recognize that the Government has a responsibility to see to it that those who buy Savings Bonds are given a fair return on their investment and I think generally over the years we have met this latter obligation.

With the new 1/2 percent bonus bringing the yield to maturity to 5-1/2 percent, Savings Bonds are again reasonably competitive with comparable savings alternatives. In fact the continued growth of this type of security is indicative of the important place this form of investment has in our American way of life and the acceptance it has been given by the public. Therefore, I do not believe that we need to apologize for the fact that Savings Bonds do not carry a return as high as some marketable securities.

After all, Savings Bonds provide a convenient method of saving for the small saver that is not available to him in marketable instruments, they bear none of the risks associated with marketable investments, and in general, they are designed to provide a fair and stable return over the longer run.

It is not the intent of the Government to pull savings out of financial intermediaries into Savings Bonds, but simply to provide a rate of return that does not discriminate against the purchasers of Savings Bonds and provide you with a product that you can sell in good conscience. I think we have that product.

Thank you.

574

The Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE W04-2041

FOR RELEASE AT 10:30 A.M., CST (OR 11:30 A.M., EST)

REMARKS BY ERNEST C. BETTS, JR.
ASSISTANT SECRETARY FOR ADMINISTRATION
DEPARTMENT OF THE TREASURY
BEFORE
THE WISCONSIN HONEY PRODUCERS ASSOCIATION
HOLIDAY INN (CENTRAL), MILWAUKEE, WISCONSIN
FRIDAY, OCTOBER 30, 1970

Chairman Voigt, President Smith, distinguished members of the Wisconsin Honey Producers Association -- It is a very real pleasure to be back in my native state and to be here in Milwaukee today. As Jackie Gleason would say -- "How sweet it is!"

I should like to compliment Mr. Voigt, Mr. Smith, your Secretary-Treasurer, Arthur Kehl, and Program Chairman William Lueschow for their fine job in setting up your convention. Although I have not been an apiculturist, my father did have several hives of bees when I was a boy. I still recall the wonderful taste of comb honey when he opened the hives in the fall.

I've been asked to share my views on the U.S. economy with you. Today, I can report to you that I believe that the U.S. economy is clearly heading toward the objective of curbing inflation while resuming healthy growth. The fiscal and monetary measures are working. They have accomplished the necessary slowing of the economy. They are now operating to support a moderate expansion and all this was done without the dislocation of a sudden, jarring move into reverse.

The adjustments underway in the economy reflect the results of two policy objectives:

-- To curb the accelerated rise in prices since mid-1965, by reducing the rate of increase in money demand through fiscal and monetary restraints.

-- To avert any serious contraction in real growth and employment and to assure a revival in the economy by the second half of the year, while checking the growth of total money expenditures.

In broad outline, if not precisely, the twin policy objectives have been met.

The objective of economic cooloff had been planned by means of traditional policies of monetary and fiscal restraint, and its arrival had been expected during the first half of 1970. On this score, the present economic plans and policies must be considered successful. The excess of demand, which had generated overheating in the economy and produced the fundamental condition of the inflation, in fact, was eliminated in the expected time frame.

This process was accompanied by difficult adjustments, which, in the past, had been accompanied by cumulative and deep declines in economic activity. Indeed, the risks of a cumulative economic decline were even greater this time because two major forces were exerting downward pressures:

-- cutbacks in defense spending, which were part of a shift in the re-ordering of Federal expenditure priorities; and

-- the fiscal and monetary restraints imposed to control inflation.

Through the use of appropriate and flexible policies, the successful avoidance of a major recession must surely be considered a considerable achievement.

I should point out that -- alongside the general program of fiscal and monetary restraint -- the determined efforts of President Nixon through his latest efforts -- including those announced recently -- to scale down and even terminate the Vietnam conflict have set the stage for a decline in defense spending projected at more than $5 billion during the current fiscal year. Manpower and budget resources are being released for more productive use in areas of high social and economic need. Thus the process that contributed so strongly to the build-up of inflationary momentum in the latter half of the 1960's is being reversed.

Eliminating excess demand and braking inflation exacted a cost. By the turn of the year, real economic growth in the United States had been temporarily brought to a standstill. As pressures on the labor market subsided, the unemployment rate this summer rose to something over 5 percent -- considerably higher than would be appropriate over any extended period of time.

However, considerable evidence is also accumulating that the needed adjustments are under way. The most encouraging sign is that industrial wholesale prices -- normally a good barometer of the pricing environment --

rose at a seasonally adjusted annual rate of barely more than 2-1/2 percent over the summer, substantially less than the 4 percent rate experienced in 1969. Productivity growth seems to be resuming, helping manufacturers to absorb higher labor costs. In fact, labor costs (not wage rates) have risen only 1% this year contrasted to 2.9% for a similar period in 1969 and 4.1% in 1968. So productivity is increasing so as to absorb many of the recent pay hikes. The rise in consumer prices has also begun to slow. *Accordingly*, the basis for a reduction in pressure for price increases has been made. The economy clearly has moved past a crossover point towards expansion.

Accordingly, the cautious and responsible financial policies will be maintained. Some budgetary deficit will be accepted this year when the economy is not under demand pressure.

It is true that the outlook for the federal budget for 1971 looks rather murky. The last official estimate in May of $1.3 billion deficit is out of date due to several factors: actions and inactions by the Congress; the economic downturn with lower receipts; increase in uncontrollable portions of the budget. The precise amount of expected deficit is still very indefinite. I think there will be some rebuilding of private liquidity. The money and capital markets already reflect some easing of tensions, and there are now signs of a resumption of economic growth. A new buoyancy in the economic environment has emerged. The progress in guiding the economy toward reasonable price stability, without lapsing into recession, is, I believe, a noteworthy achievement. But the financial managers of government are as fully aware of the danger of too fast expansion and renewed over-heating as they were of deep recession. Government spending will try to be kept below the limits set by the revenue potential at high levels of income and employment. An expansion of money and credit of proportions that could fuel an excessive burst of demand will not be encouraged. A steady, rather than precipitous, advance offers the best prospect for combining fuller employment with greater price stability.

The rise in the stock market and the slowdown in the advance of wholesale and retail prices have contributed to expectations of expansion in the months ahead. By sectors, these developments seem probable:

-- Consumers may be expected to spend more. Much of the special additions to their income -- more social security benefits, phasing out of the surtax, increased Federal pay -- have been reflected in higher saving rates than in spending. This will change.

-- Inventories have not become excessive, as in other slowdowns. As sales improve, production for inventories will add strength to the recovery.

-- Housing starts already have responded to monetary policy, as funds have accumulated at mortgage-granting institutions.

-- Prospects for a turnaround in business investment appear brighter in view of an upturn expected in new appropriations by manufacturers in the third quarter, as reported to The Conference Board.

-- State and local governments will resume strong growth in spending, as lowered bond yields promote what already are heavy flotations.

As expansion is resumed, the issue arises whether re-acceleration of prices will emerge. Reactivation of inflationary pressures can be averted by sound policies. One prime requisite is the management of fiscal policy, which is not overstimulative; and at the same time to assure that important national needs are met through the Federal Budget. This would avoid the need for sharp swings in monetary policy directed to stabilize the economy.

Hopefully, the recovery of the economy will proceed at such a pace wherein inflationary fires are not rekindled by an abrupt elimination of the gap between potential and actual capacity of the economy to produce. A gradual path in eliminating this gap is the best promise of full employment without inflation. Under these circumstances, the power of productivity gains to offset the effects of wage increases on unit labor costs, over the long run, could operate to reduce upward price pressures.

Finally, removal of structural barriers to the operations of labor markets by eliminating such barriers to entry as racial discrimination, overlong apprenticeships, better matching of skills with unfilled jobs, etc., could expand the supply of labor, increase productivity, and reduce inflationary pressures.

This type of economic policy would overcome the cost of a depressed economy as a condition of freedom from inflation.

Now, I wish to conclude with a few statements about a favorite subject of mine -- Savings Bonds. With the new 1/2-percent bonus bringing the yield to maturity to 5-1/2 percent, Savings Bonds provide a fairer return, more competitive with the most comparable types of other investments.

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

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

Thank you for permitting me to appear on your program. It has been a real pleasure to have been a part of your annual convention.

oOo

THE SECRETARY OF THE TREASURY
WASHINGTON

October 30, 1970

NOTE TO EDITORS:

The enclosed speech of Under Secretary of the Treasury Charls E. Walker is especially pertinent at this time. I am sending the full text to you because it is my feeling that it sets out the straight facts about the economy.

Sincerely,

David M Kennedy

567

The Department of the TREASURY NEWS

SHINGTON, D.C. 20220 TELEPHONE WO4-2041

FOR RELEASE ON DELIVERY

REMARKS OF THE HONORABLE CHARLS E. WALKER
UNDER SECRETARY OF THE TREASURY
BEFORE
THE GEORGETOWN UNIVERSITY'S
SEVENTEENTH ANNUAL BANKERS' FORUM
WASHINGTON, D.C.
12:00 NOON, SATURDAY, OCTOBER 31, 1970

"TELLING IT LIKE IT REALLY IS"

I. Introduction and Summary

Within a span of a few days, a covey of economic advisers to recent Democratic presidents, assorted Democratic Congressmen, and several national labor leaders have lashed out viciously at the Administration's economic policies. With a calculated disregard for both perspective and good manners (one Democratic economist, referring to Administration policies, said that President Nixon should "rejoin the human race"), all of these commentators have charged, in short, that the economy is going to Hell in a handbasket.

Even allowing for the heat of an election campaign, this is surely going too far. The impact on the election results is, of course, important to both sides. But a less obvious result, and much more important, is the damage that can be done to the prospects of achieving sound, bipartisan economic policies in the years ahead.

Let's look at the record.

1. Those same Democratic economic advisers who so sharply criticize the Nixon policies today are the same men who advised an Administration that superimposed a war costing up to $30 billion a year on top of a domestic economy already at full employment -- an Administration that waited eighteen months before it made a half-hearted request for a tax increase to pay for part of the war-induced increase in spending.

   On top of this, those same economists were advisers to an Administration which persuaded Congress to enact programs adding some $35 billion to domestic spending in the four years ended in mid-1969.

   As any of these advisers' students could have told them, this effort to have guns, butter, fat, and a Great Society, all within a few years, assured that the economy would fall prey to the ravages of deep and accelerating inflation.

2. Those same Democratic Congressmen who so sharply criticize the Nixon policies today are the same men who were running the legislative branch of Government when the combination of war and Great Society spending brought the Nation to the brink of an inflationary crisis.

   But this is not all -- these same Democratic Congressmen last year led the fight to convert a fine bipartisan effort for long-needed tax reform into an irresponsible tax cut which threatens to re-ignite the inflationary tinder and can only impede the nation's ability to meet social and defense needs in the years ahead.

3. Those same labor leaders who so sharply complain about the continuing rise in prices are now extending the inflation by demanding, and receiving, wage increases which far outstrip any conceivable addition to output resulting from future increases in productivity.

II.

When President Nixon assumed office in January 1969, he inherited one of the most intractable economic problems in modern times -- inflation and inflationary expectations had truly captured the American economy. Who created this dangerous situation? Not Richard Nixon and his economic team; not a Republican Congress. Not by a long shot. This economic mess was the legacy of preceding Democratic administrations -- administrations advised either formally or informally by those same Democratic economists who have been firing the recent salvos at the Nixon policies.

To be more specific, those Democratic economists, almost all now in the privileged sanctuaries of universities or research institutions, served Democratic administrations which superimposed a costly war on top of an economy which in 1965-66 -- as a result of bipartisan economic policies -- was already at full employment.

The escalation in Vietnam began in mid-1965; but it was not until January 1967, a full 18 months later,that the Administration of the day issued a half-hearted call for a tax increase to help pay for the war. And it was not until some seven months later that the Administration unlimbered its big guns to really move the proposal.

Then Secretary of the Treasury Henry Fowler, and his Under Secretary, Joseph Barr (men with the responsibility of policy in those days who interestingly enough, have not joined the carping chorus of policy advisers who held no such responsibility), mounted an effective, broad-based, and truly bipartisan campaign to achieve passage of the surtax. The leadership of Democrat George Smathers and Republican John Williams finally brought success in the Senate in the Spring of 1968 -- 15 months following the original proposal and almost three years after the escalation got under way in Vietnam. The Democratic controlled House continued to procrastinate, finally passing the surtax in June,1968.

(I might note in passing that the bipartisan flavor of the effort was enhanced by the strong cooperation of the great majority of us Republican economists, then on the outside, who worked hard for passage of the surtax. Several, including myself, had called for the tax increase early in 1966.)

The delay in raising taxes is, of course, only part of the story. The economic costs of the Vietnam War could have been borne through cutbacks in non-Vietnam spending. But the fact is that domestic spending ballooned by a whopping $35 billion in the four years ending in mid-1969!

The record speaks for itself. It is one of the sorriest episodes in the whole history of U.S. stabilization policy.

III.

What were the Democratic members of Congress doing during this massive inflationary buildup? Well, they were running the Congress, as they (or their predecessors) had done since 1955. But they did not run very fast toward enacting the Administration's surcharge proposed in early 1967 (or our proposed extension in 1969). On the other hand, they ran very fast indeed in enacting the gigantic increases in spending to finance the Great Society.

This deficit-inducing inclination of the Democratic Congress has not changed -- quite the contrary. In April 1969, the Nixon Administration submitted to Congress a long list of overdue tax reform measures, balanced both as to equity and revenue. In fact, enactment of the President's original proposals, as presented, would have added billions to Federal income in the years ahead. The Democratic Congress, although succeeding in an admirable bipartisan effort to enact the reform measures, added billions in unwarranted and irresponsible tax relief which in the years ahead will result in a shortage of funds to meet pressing national needs and again threaten inflation.

Again, the record speaks for itself.

IV.

From the start, this Administration has recognized that organized labor has been the victim, not the villain, in the inflationary process. The drop in real take-home pay that union members suffered in the last Democratic administration was the direct result of the Federal spending spree. And the effort of labor to catch up to those past increases in the cost of living are fully understandable.

But what is not defensible is the effort of labor leaders to convince the American people, particularly their own union members, that the continuing rise in prices results from the policies of the Nixon Administration. As any reputable economist will admit, the major force elevating prices today is the pronounced tendency for increases in labor compensation -- reflecting mainly major collective bargaining settlements -- to far outstrip any possible gains in output per manhour, or productivity.

Stated another way, the Nixon policies were absolutely essential to cool the overheated economy and restore stable growth. These policies have worked as envisaged, and the demand-pull inflation of "too much money chasing too few goods" is no longer the problem of the day. Cost-push pressures now predominate, and they are likely to continue to predominate so long as labor leaders insist on excessive wage settlements.

Nor is the Nixon economic team satisfied with 5½ percent unemployment. That figure,it should be noted in passing, was swelled by erratic factors in September. And it is still less than the average in the early years of the 1960's.

But this Administration will not be fully satisfied until any person who is able, willing and seeking to work can find a useful employment opportunity. But to attempt to buy low unemployment at the price of a high rate of inflation -- as our critics seem to suggest -- would ultimately be self-defeating, with an ultimate severe reaction and return to the high unemployment levels of the early 1960's.

The fact is that the necessary economic cooling has been successfully achieved, without inducing an old-fashioned recession or unconscionably high unemployment levels of earlier years.

Again, the record speaks for itself.

V.

Here, viewed with perspective, are the real economic consequences of the Nixon economic policies in 1970.

1. Nixon policies have succeeded in cooling the economic overheating brought on by massive increases in Federal spending in the latter half of the 1960's.

2. We are now in the highly uncomfortable but unavoidable "hangover" period in which rising costs continue to push upward on prices -- this period has been extended by the strength and longevity of the basic demand pressures which initiated the inflation in the first place.

3. Still, there is convincing evidence that inflation is being tamed. For example --

   - the rate of increase in consumer prices, at 6.3 percent in the first quarter of 1970, dropped to 5.8 percent in the second quarter and 4.2 percent in the third quarter;

   - most importantly, the gap between increases in labor compensation and output per manhour narrowed significantly in the second quarter and, on the basis of preliminary data, even further in the third quarter (this means that "cost-push" is coming gradually under control).

4. Overall economic activity, as measured by real Gross National Product, levelled out in the first half of 1970 and rose moderately in the third quarter. Further gains have been thwarted by the General Motors strike.

5. Homebuilding activity has reversed and is rising steadily. Many housing experts forecast a banner year for 1971. These favorable prospects reflect --

   -- the emergency efforts of the Administration and the Congress to bolster housing in 1969 and 1970;

   -- the sharp turnaround in money market interest rates since early 1970 (rates on Treasury bills have dropped more than one-fourth, from 8 percent to less than 6 percent), thus reducing market competition for savers' funds; and, partly as a result,

   -- the sharp improvement in the savings flow picture for savings and loan associations, savings banks, and the savings departments of commercial banks. This dramatic improvement in the availability of mortgage funds accounts largely for the upswing in housing starts and the highly favorable outlook. Before long, this increased availability of institutional loans should be reflected in lower mortgage rates.

6. Borrowing costs for State and local governments have declined sharply, encouraging a record flow of borrowing to meet these important needs.

7. The prime lending rate of commercial banks has been cut twice in 1970, and many experts are forecasting further reductions in the months ahead.

8. The nation's trade surplus, all but wiped out in 1968 and 1969 as a result of the inflation, has re-emerged and is adding strength to the dollar in world markets.

9. The financial disturbances of last spring,themselves a legacy of mismanaged economic policies in 1965-68, have been weathered satisfactorily --

-- the credit crisis which many feared has been averted;

-- the stock market has moved up to more than 100 points above its 1970 low point.

10. Business profits, which declined from early 1969 to early 1970, stabilized in the second quarter and, according to preliminary indications, seemed to have moved up in the third quarter. Many analysts are predicting a sharp revival in profits in 1971.

VI.

This is the record of 21 months of Nixon economic policies. A badly overheated economy has been cooled, inflation is being brought under control, financial markets are operating efficiently, a housing boom is in prospect, and the road back towards full employment is clearly charted.

It is a record on which we are proud to run.

oOo

The Department of the TREASURY
WASHINGTON, D.C. 20220   TELEPHONE WO4-2041
NEWS

FOR IMMEDIATE RELEASE

WASHINGTON, D. C.
October 30, 1970

TREASURY ANNOUNCES AUCTION OF $2.0 BILLION OF NEW NOTES

The Treasury announced preliminary reports indicate that about $5.3 billion of the $6.0 billion of November 15 5% notes held by the public will be exchanged for new notes. This leaves about $0.7 billion, or 12%, to be paid off in cash.

To provide cash to pay off these notes and to raise part of the cash needed for the remainder of the calendar year, the Treasury also announced that it will auction $2.0 billion of 6-3/4% 1-1/2 year notes. The notes will be dated November 16 1970, and will mature on May 15, 1972. They will be auctioned Thursday, November 5.

The Treasury noted that the use of the auction method of sale represents an adaption of the technique used successfully for many years in marketing Treasury bills. This test of the auction technique as a way of selling Treasury notes is part of a continuing effort of the Treasury to develop more efficient debt management techniques.

The details of the sale are attached. Nonbank investors should note particularly that payment for the notes must be completed in funds available to the Treasury by November 16, 1970, or deposits will be subject to forfeiture.

Department of the TREASURY

ASHINGTON, D.C. 20220 TELEPHONE WO4-2041

NEWS

FOR IMMEDIATE RELEASE

October 30, 1970

DETAILS OF TREASURY ANNOUNCEMENT OF AUCTION OF $2.0 BILLION OF NEW NOTES

The $2.0 billion, or thereabouts, of 1-1/2 year 6-3/4% Treasury Notes of Series D-1972 to be sold at auction under competitive and noncompetitive bidding will be issued on November 16, 1970, and mature May 15, 1972.

The notes will be issued in registered and bearer form in denominations of $1,000, $5,000, $10,000, $100,000 and $1,000,000.

Tenders for the notes will be received up to 1:30 p.m. Eastern Standard time, Thursday, November 5, 1970, at any Federal Reserve Bank or Branch and at the Office of the Treasurer of the United States, Washington, D. C. 20220. Tenders received after the closing hour will not be accepted.

Each tender must be in the amount of $1,000 or a multiple thereof, and must state the price offered, if it is a competitive tender, or the term "noncompetitive", if it is a noncompetitive tender. The price on competitive tenders must be expressed on the basis of 100, with two decimals e.g., 100.00. Tenders at a price less than 99.76 will not be accepted. Fractions may not be used. The notation "TENDER FOR TREASURY NOTES" should be printed at the bottom of the envelope in which the tender is submitted.

Public announcement will be made of the amount and price range of accepted tenders. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations noncompetitive tenders for $200,000 or less will be accepted in full at the average price (in two decimals) of accepted competitive tenders. This price may be 100.00, or more or less than 100.00.

Commercial banks, which for this purpose are defined as banks accepting demand deposits, may submit tenders for account of customers provided the names of the customers are set forth in such tenders. Others than commercial banks will not be permitted to submit tenders except for their own account.

Tenders will be received without deposit from commercial 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, dealers who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions with respect to Government securities and borrowings thereon, and Government accounts. Tenders from others must be accompanied by payment of 5 percent of the face amount of notes applied for.

Payment for accepted tenders must be completed on or before Monday, November 16, 1970, at the Federal Reserve Bank or Branch or at the Office of the Treasurer of the United States in cash, 5% Treasury Notes of Series A-1970 (will be accepted at par), or other funds immediately available to the Treasury by that date. Where full payment is not completed in funds available by the payment date, the allotment will be canceled and the deposit with the tender up to 5 percent of the amount of notes allotted will be subject to forfeiture to the United States.

Nonbank investors should understand that their checks will constitute payment only if they are fully and finally collected by the payment date, Monday, November 16, 1970. Checks not so collected will subject the investor's deposit to forfeiture as set forth in the preceding paragraph. A check payable other than at a Federal Reserve Bank received on the payment date will not constitute immediately available funds on that date. Accordingly, in order that a check will constitute immediately available funds to the Treasury by the payment date, it should be submitted sufficiently in advance to assure completion of its collection by Monday, November 16, 1970. Checks should be drawn to the order of the office to which the tender is submitted. If a check for the full amount of the payment is submitted with the subscription, it should be, in the case of tenders at a competitive price, equal to the total purchase price of the notes bid for, or, in the case of noncompetitive tenders, equal to the full face amount of the notes bid for. Bidders on a noncompetitive basis who submit checks for the face amount of the notes bid for will be (1) required to pay an additional amount if the purchase price is more than 100, or (2) paid the difference if the purchase price is less than 100.

Commercial banks are prohibited from making unsecured loans, or loans collateralized in whole or in part by the notes bid for, to cover the deposits required to be paid when tenders are entered, and they will be required to make the usual certification to that effect. Other lenders are requested to refrain from making such loans.

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 the notes bid for under this offering at a specific rate or price, until after 1:30 p.m., Eastern Standard time, Thursday, November 5, 1970.

Any qualified depositary will be permitted to make settlement by credit in its Treasury tax and loan account for not more than 50 percent of the amount of notes allotted to it for itself and its customers.

Treas.
HJ
10
.A13P4
v.170

U.S. Treasury Dept.

Press Releases

Treas.
HJ
10
.A13P4

U.S. Treasury Dept.

AUTHOR

Press Releases

TITLE

v.170

DATE LOANED	BORROWER'S NAME	PHONE NUMBER
[illegible]	[illegible]	[illegible]
~~1/19/73~~	~~J. Grant~~	~~8191~~
~~3/16/76~~	~~A. [illegible]~~	~~5932~~