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Department of the TREASURY

IINGTON, D.C. 20220 TELEPHONE W04-2041

NEWS

FOR IMMEDIATE RELEASE February 1, 1971

TREASURY ANNOUNCES IMPLEMENTATION OF
ADDITIONAL ANTI-CARGO THEFT REGULATIONS

Eugene T. Rossides, Assistant Secretary of the Treasury for Enforcement and Operations, announced today revised Customs regulations to implement the second phase of Treasury's program to combat cargo theft. The regulations establish elementary standards for the handling and storage of international cargo, provide for better authentication of pick-up orders and verification of delivered quantities, and permit district directors of customs to require bonded warehouse operators, customhouse brokers, and carriers to submit lists of their employees. The regulations will go into effect April 1, 1971.

Mr. Rossides noted that, "The first phase of Treasury's program to combat cargo theft was implemented by publication in the Federal Register on January 22, 1971, of regulations which established a uniform system of accountability for international cargo as manifested, unladen, and delivered.

"The third phase of Treasury's program to prevent cargo theft involves legislation which will be proposed in this session of Congress authorizing the Secretary of the Treasury to set comprehensive national standards for storage and handling of international cargo."

The new regulations, which will appear in the Federal Register of February 3, 1971, make final three parts of a proposed rule-making originally published in the Federal Register on June 26, 1970 (35 F.R. 10463):

First, district directors of customs are instructed not to grant a permit to unlade unless the terminal provides secure storage for cargo with a high value-to-weight ratio or with broken packaging.

K-579

Second, where a district director finds that there is a high incidence of theft or pilferage, he is directed to require the use of a prescribed pick-up form which authenticates the broker's or consignee's designation of a trucker or other agent to receive the merchandise, and he is permitted to defer release of the merchandise from customs custody until the delivery is completed and verified under the supervision of a Customs officer.

Third, district directors are authorized to demand from carriers and properietors of bonded warehouses written lists containing data on all persons employed by them in the unlading, carriage, receiving, storage or delivery of imported merchandise, and from customhouse brokers a list of all employees.

Mr. Rossides pointed out that the fourth part of the proposed rule-making of June 26, 1970, which concerned the requirement for issuance and display of photo-identification cards within areas where there is a high incidence of theft and pilferage, is still under review within the Treasury Department.

A copy of the new regulations is attached.

Attachment

(T.D. 71-39)

PERMIT TO UNLADE--SECURITY OF CARGO IN UNLADING AREAS

Amendment of Sections 4.30, 4.38, 19.3, and 111.28, Customs Regulations, to prescribe security measures for the protection of cargo in unlading areas

TREASURY DEPARTMENT,
OFFICE OF THE COMMISSIONER OF CUSTOMS,
Washington, D. C.

TITLE 19--CUSTOMS DUTIES

CHAPTER I--BUREAU OF CUSTOMS

On June 26, 1970, a notice of proposed rule making to amend the Customs Regulations to prescribe security measures for the protection of cargo in unlading areas was published in the Federal Register (35 F.R. 10463). Interested persons were given the opportunity to submit written comments, suggestions or objections regarding the proposed regulations. After consideration of all such relevant matters as were presented, certain portions of the proposed amendments are hereby adopted, subject to the following changes:

(1) In section 4.30(l) language is added which requires the carrier to utilize a terminal which has suitable facilities for the transportation and storage of its merchandise as a condition to the granting of a permit to unlade. Also, the term "adequately secured" has been clarified.

(2) In section 4.30(m) the requirement has been added that the list of names, addresses, social security numbers, and dates and places of birth required by the district director be submitted to him in writing. Also the carrier has been given the responsibility of promptly advising the district director when the employment of any such person is terminated. A definition of when a person is deemed to be employed by a carrier has been included.

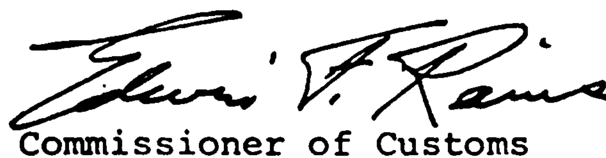
(3) In section 19.3 and section 111.28 dealing with bonded warehouse proprietors and their employees and customhouse brokers and their employees, respectively, changes similar to those in section 4.30(m) have been made.

(4) In section 4.38(c) and (d), direct supervision of delivery by a Customs officer has been made optional.

Minor editorial changes, and conforming changes to reflect changes in the cross-references are also made. The text of the amendments to the Code of Federal Regulations as adopted is set forth below, and shall become effective April 1, 1971.

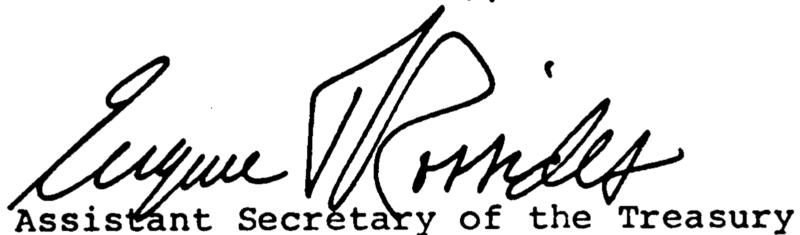
Other portions of the proposed amendments, concerned with the issuance of identification cards (previously

published as sections 4.30(n), 19.3(e), and 111.28(c) and (d)) are still under consideration.



Commissioner of Customs

Approved: JAN 29 1971



Assistant Secretary of the Treasury

PART 4--VESSELS IN FOREIGN AND DOMESTIC TRADE

Section 4.30 is amended to add new paragraphs (l) and (m), as follows:

Section 4.30. Permits and special licenses for unlading and lading.

* * * * *

(l) A permit to unlade pursuant to Parts 4 or 6 of these regulations shall not be granted unless the district director determines that the applicant provides or the terminal at which the applicant will unlade the cargo provides (1) sufficient space, capable of being locked, sealed, or otherwise secured, for the storage immediately upon unlading of cargo whose weight-to-value ratio renders it susceptible to theft or pilferage and of packages which have been broken prior to or in the course of unlading; and (2) an adequate number of vehicles, capable of being locked, sealed, or otherwise secured, for the transportation of such cargo or packages between the point of unlading and the point of storage. A term permit to unlade shall be revoked if the district director determines subsequent to such issuance that the requirements of this paragraph have not been met.

(m) A permit to unlade pursuant to Parts 4 or 6 shall not be granted to an importing carrier, and a term permit to unlade previously granted to such a carrier shall be revoked, (1) if such carrier, within 30 days after the date of receipt of a written demand by the district director, does not furnish a written list of the names, addresses, social security numbers, and dates and places of birth of persons it employs in connection with the unlading, storage and delivery of imported merchandise; or (2) if, having furnished such a list, the carrier does

not advise the district director in writing of the names, addresses, social security numbers, and dates and places of birth of any new personnel employed in connection with the unlading, storage and delivery of imported merchandise within 10 days after such employment. If the employment of any such person is terminated, the carrier shall promptly advise the district director. For the purposes of this part, a person shall not be deemed to be employed by a carrier if he is an officer or employee of an independent contractor engaged by a carrier to load, unload, transport or otherwise handle cargo.

Section 4.38 is amended to add new paragraphs (c) and (d) as follows:

Section 4.38. Release of cargo

* * * * *

(c) If the district director determines that, in a port or portion of a port, the volume of cargo handled, the incidence of theft or pilferage, or any other factor related to the protection of merchandise in Customs custody requires such measures, he shall require as a condition to the granting of a permit to release imported merchandise that the importer or his agent present to the carrier or his agent a fully executed pick-up order in substantially the following format, in triplicate, to obtain delivery of any imported merchandise:

PICK UP ORDER

is authorized to pick up th
merchandise indicated below

Trucker Name

COD ☐ Bank Release ☐ Collect ☐

Broker Name & Authorized Signature (if applicable)

; & ers	Pcs.	Description of Goods	Entry #	Importing Carrier & AWB Number or B/L Number	Signature & Date of Receiving Carrier	Remarks

Delivered Quantities Verified

Customs Officer Badge Number

Date

pick-up order shall contain a duly authenticated customhouse broker's nature, unless it is presented by a person properly identified as an loyee or agent of the ultimate consignee. When delivered quantities are ified by a Customs officer he shall certify all copies of the pick-up ler, returning one to the importer or his agent and two to the carrier :ing delivery.

(d) When the provisions of paragraph (c) of this section are invoked by the district director and verification of delivered quantities by Customs is required, a permit to release merchandise shall be effective as a release from Customs custody at the time that the delivery of the merchandise covered by the pick-up order into the physical possession of a subsequent carrier or an importer or the agent of either is completed under the supervision of a Customs officer, and only to the extent of the actual delivery of merchandise described in such pick-up order as verified by such Customs officer.

(Secs. 448, 505, 46 Stat. 714, 732; 19 U.S.C. 1448, 1505)

PART 19--CUSTOMS WAREHOUSES AND CONTROL OF MERCHANDISE THEREIN

Section 19.3 is amended to add new paragraphs (d) and (e), as follows:

Section 19.3. Bonded warehouses; alterations; suspensions; discontinuance.

* * * * *

(d) The bonded status of a warehouse may be discontinued if, within 30 days after the date of receipt of a written demand by the district director, the proprietor fails to submit a written list of the names, addresses, social security numbers, and dates and places of birth of all persons employed by him in the carriage, receiving, storage or delivery of imported merchandise; or if, having furnished such a list, the proprietor fails to advise the district director in writing of the names, addresses, social security numbers, and dates

places of birth of any new personnel employed by him in the carriage, receiving, storage or delivery of imported merchandise within 10 days after such employment. If the employment of any such person is terminated, the proprietor shall promptly advise the district director. For the purpose of this part, a person shall not be deemed to be employed by a warehouse proprietor if he is an officer or employee of an independent contractor engaged by the warehouse proprietor to load, unload, transport, or otherwise handle imported merchandise.

(e) The district director may at any time serve notice in writing upon any proprietor of a bonded warehouse to show cause why his right to continue the bonded status of his warehouse should not be discontinued for failure to comply with the requirements established in accordance with paragraph (d) of this section. Such notice shall advise him of the allegations and shall afford him the right to respond in writing within 10 days. Thereafter, the district director shall consider the allegations and responses made by the said proprietor unless the proprietor in his response requests a hearing. If a hearing is requested, it shall be held before a hearing officer designated by the Secretary of the Treasury or his designee within 30 days following request therefor. The proprietor may be represented by counsel at such hearing, and all evidence and testimony of witnesses in such proceedings, including substantiation of the allegations and the responses thereto shall be presented, with the right of cross-examination to both parties.

A stenographic record of any such proceeding shall be made and a copy thereof shall be delivered to the proprietor of the warehouse. At the conclusion of such proceeding or review of a written response, the hearing officer or the district director, as the case may be, shall forthwith transmit all papers and the stenographic record of the hearing, if held, to the Commissioner of Customs together with his recommendation for final action. The proprietor may submit in writing additional views or arguments to the Commissioner, following a hearing on the basis of the stenographic record, within 10 days after delivery to him of a copy of such record. The Commissioner shall thereafter render his decision in writing, stating his reasons therefor, with respect to the action proposed by the hearing officer or the district director. Such decision shall be served on the proprietor of the warehouse.

(Secs. 555, 556, 46 Stat. 743; 19 U.S.C. 1555, 1556)

PART III--CUSTOMHOUSE BROKERS

Section 111.28 is amended to read as follows:

Section 111.28. Responsible supervision.

(a) General rule. Every licensed broker operating as a sole proprietor and every licensed member of a partnership and every licensed officer of an association or corporation which is licensed as a broker shall exercise responsible supervision and control over the transaction of the Customs business of such sole proprietorship, partnership, association or corporation.

(b) List of employees. Within 30 days after the date of receipt of a written demand by the district director, a licensed customhouse broker shall submit a list of the names, addresses, social security

numbers, and dates and places of birth of persons currently employed. Having furnished such a list, each licensed customhouse broker shall, within 10 days after the employment of any new personnel, advise the district director of the names, addresses, social security numbers, and dates and places of birth of any such employees. If the employment of any such person is terminated, the customhouse broker shall promptly advise the district director.

Department of the TREASURY

NGTON, D.C. 20220 TELEPHONE WO4-2041

NEWS

MEMORANDUM FOR THE PRESS: February 1, 1971

DRAFT BILL TO EASE SMALL BUSINESSES' TAX BURDENS SENT TO HOUSE AND SENATE

President Nixon announced on January 26 that he would re-submit to the Congress 40 bills which were not acted upon by the 91st Congress. Secretary of the Treasury David M. Kennedy today sent one of these bills -- the Administration's proposals for easing the tax burdens of small businesses -- to the Speaker of the House of Representatives and the President of the Senate.

The draft bill, entitled the "Small Business Taxation Act of 1971," is substantially identical to the proposed legislation which Treasury previously sent to the Congress on April 17, 1970.

The most important feature of the bill would permit banks to deduct 20 percent of the interest received on loans guaranteed by the Small Business Administration. This proposal would substantially increase the participation of commercial lenders in small business loans, and make it easier for small businesses to obtain initial capital.

The tax proposals also provide several important incentives for Minority Enterprise Small Business Investment Companies (MESBICs). For example, under the bill, MESBICs could be shareholders in "quasi-partnership corporations" (so-called Subchapter S Corporations).

The bill also contains provisions liberalizing the net operating losses rules for small business, and liberalizing the tax rules on stock options issued to key executives of small businesses.

A copy of Secretary Kennedy's letter transmitting the proposed bill to the Speaker of the House is attached. (Identical letter sent to the President of the Senate.) Also attached are copies of the proposed measure and an analysis of its provisions.

THE SECRETARY OF THE TREASURY
WASHINGTON

FEB - 1 1971

Dear Mr. Speaker:

In accordance with the President's Message of January 26, 1971, transmitting legislative proposals not acted upon by the 91st Congress, I am enclosing a draft bill entitled the "Small Business Taxation Act of 1971," for consideration by the Congress. This legislation, intended to alleviate the tax burdens borne by small businesses, is substantially identical to proposed legislation which was previously transmitted to the Congress on April 17, 1970.

In order to increase the funds available to high-risk small businesses, section 2 of the proposed legislation provides a deduction equal to 20 percent of the gross income derived by corporations from obligations guaranteed by the Small Business Administration. The deduction would not, however, be available to so-called Subchapter S corporations and personal holding companies. To insure that no taxpayer is able to take undue advantage of the provision, the deduction could not reduce taxable income to less than 60 percent of the lender's economic income. For this purpose, "economic income" includes tax exempt interest and all dividends received by the taxpayer.

Section 3 would permit business losses incurred by individuals or qualified small business corporations to be carried forward for 10 years as a deduction against income in subsequent years. A corporation will be considered "small" if, together with its affiliates, it has no more than 250 employees, 250 shareholders and $1 million in net assets. The extended net operating loss carryover period will be particularly helpful to new businesses which spend large amounts on research and development during their early years but may not begin to show a profit until 6 or 7 years later.

In the case of small business corporations described in the preceding paragraph, section 5 of the proposed bill would liberalize the requirements for capital gain treatment of qualified stock options under section 422 of the Internal Revenue Code. The period during which such an option could be exercised would be extended from 5 to 8 years and the period during which the stock must be held after exercise would be reduced from 3 to 1 year. This provision is intended to aid small growth companies in attracting managerial talent.

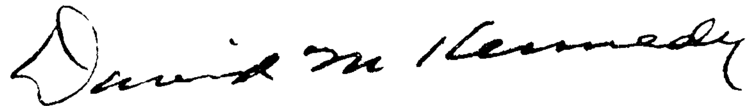
Section 6 of the proposed bill modifies the definition of an electing small business corporation (the so-called "Subchapter S corporation"). The number of shareholders of such a corporation would be increased from 10 to 30, and Minority Enterprise Small Business

Investment Companies (MESBICs) could be shareholders. The legislation also specifies that a MESBIC which is not organized for profit and the net earnings of which do not inure to the benefit of any private shareholder, may be treated as a tax exempt organization. Contributions to such a group would be treated as charitable contributions.

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

We have been advised by the Office of Management and Budget that there is no objection to the presentation of this draft bill to the Congress, and that its enactment would be in accord with the program of the President.

Sincerely yours,



The Honorable
Carl Albert
Speaker of the House
of Representatives
Washington, D.C. 20515

Enclosures

A BILL

To amend the Internal Revenue Code of 1954 to ease the tax burdens of small businesses, and for other purposes.

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

SECTION 1. SHORT TITLE, ETC.

(a) Short Title.--This Act may be cited as the "Small Business Taxation Act of 1971."

(b) Amendment of 1954 Code.--Whenever in this Act an amendment is expressed in terms of an amendment to a section or other provision, the reference shall be considered to be made to a section or other provision of the Internal Revenue Code of 1954.

SEC. 2. INTEREST ON GUARANTEED SMALL BUSINESS LOANS.

(a) In General.--Part VIII of subchapter B of chapter 1 (relating to special deductions for corporations) is amended by adding after section 249 the following new section:

"SEC. 250. INTEREST ON GUARANTEED LOANS TO SMALL BUSINESSES.

"(a) General Rule.--In the case of a corporation there shall be allowed as a deduction an amount equal to 20 percent of--

"(1) the gross income derived for the taxable year with respect to obligations guaranteed by the Small Business Administration, reduced by

"(2) the amount allowable as a deduction under section 171 (a) (1).

"(b) Limitation.--For any taxable year, the amount allowable as a deduction under subsection (a) shall not exceed taxable income (computed without regard to this section), reduced (but not below zero) by 60 percent of the sum of the following:

"(1) taxable income (computed without regard to this section);

"(2) interest on certain governmental obligations described in section 103 (a); and

"(3) the amount allowable as a deduction under section 243.

"(c) Exception.--This section shall not apply to:

"(1) a personal holding company (as defined in section 542), or

"(2) an electing small business corporation (as defined in section 1371 (b))."

(b) Basis Adjustment.--Section 1016 (a) (relating to adjustments to basis) is amended by striking out the period at the end of paragraph (22) and inserting in lieu thereof a semicolon, and by inserting after paragraph (22) the following new paragraph:

"(23) for purposes of sections 165 and 166, in the case of a right to receive gross income derived from an obligation guaranteed by the Small Business Administration, to the extent of the allowable deduction under section 250."

(c) Clerical Amendment.--The table of sections for part VIII of subchapter B of chapter 1 is amended by adding at the end thereof:

"SEC. 250. Interest on guaranteed loans to small businesses."

(d) Effective Date.--The amendment made by this section shall apply with respect to loans which are guaranteed by the Small Business Administration after the date of enactment of this Act and with respect to taxable years ending after such date.

SEC. 3. QUALIFIED SMALL BUSINESS NET OPERATING LOSSES.

(a) In General.--Section 172 (b) (1) (relating to net operating loss deduction) is amended by adding at the end of subparagraph (G) the following new subparagraph:

"(H) In the case of an individual or a corporation, which is a qualified small business corporation, for any taxable year ending after March 19, 1970, a net operating loss for such taxable year shall be a net operating loss carryover to each of the 10 taxable years following the taxable year of such loss."

(b) Conforming Amendment.--Section 172 (b) (1) (B) is amended by striking "and (E)", and inserting in lieu thereof "(E), and (H)".

(c) Effective Date.--The amendment made by this section shall apply to all taxable years ending after December 31, 1970.

SEC. 4. MINORITY ENTERPRISE SMALL BUSINESS INVESTMENT COMPANIES.

(a) In General.--Section 501 (relating to exemption from tax on corporations, etc.) is amended by redesignating subsection (f) as subsection (g), and by inserting after subsection (e) the following new subsection:

"(f) Minority Enterprise Small Business Investment Companies.--For purposes of this title, an organization shall be treated as an organization organized and operated exclusively for charitable purposes if--

(i) it is a small business investment company operating under the Small Business Investment Act of 1958;

(ii) it is not organized for profit, and no part of its net earnings inure to the benefit of any private shareholder; and

(iii) it is certified by the Department of Commerce or the Small Business Administration as organized and operated exclusively to increase the ownership of small businesses by socially or economically disadvantaged persons.

(b) Effective date.--The amendment made by subsection (a) shall apply to any taxable year of a minority enterprise small business investment company beginning after the date of enactment of this Act, and to contributions made to any such company after November 6, 1969. Any company which meets the requirements of

section 501 (f), as added by subsection (a), for its first taxable year beginning after the date of enactment of this Act, shall be deemed to have met such requirements as of the date of its organization if no part of its net earnings have at any time inured to the benefit of any private shareholder.

SEC. 5. QUALIFIED SMALL BUSINESS CORPORATION STOCK OPTIONS.

(a) In General.--Section 422 (relating to qualified stock options) is amended by adding at the end of subsection (c) the following new paragraph:

"(7) Qualified small business corporation.--In the case of options granted by a corporation which is a qualified small business corporation as of the end of the taxable year immediately preceding the year in which the option is granted--

"(A) the period referred to in subsection (a) (1) shall be 1 year, and

"(B) the period referred to in subsection (b) (3) shall be 8 years."

(b) Effective Date.--The amendment made by this section shall apply to options granted after the date of enactment.

SEC. 6. DEFINITION OF SUBCHAPTER S CORPORATIONS.

(a) Number of Shareholders.--Subsection (a) (1) of section 1371 (relating to the definition of a small business corporation) is amended by striking out "10" and inserting in lieu thereof "[illegible]0".

(b) Minority Enterprise Small Business Investment Companies.--Subsection (a) of section 1371 is amended by striking out paragraph (2) and inserting in lieu thereof the following:

"(2) have as a shareholder a person (other than an estate) who is not--

"(A) an individual, or

"(B) a small business investment company operating under the Small Business Investment Act of 1958, which is certified by the Department of Commerce or the Small Business Administration as organized and operated exclusively to increase the ownership of small businesses by socially or economically disadvantaged persons.

(c) Effective Date.--The amendments made by this section shall apply to taxable years beginning after December 31, 1970.

SEC. 7. QUALIFIED SMALL BUSINESS CORPORATION.

(a) Definition of Qualified Small Business Corporation.--Section 7701 (relating to definitions) is amended by adding at the end of subsection (a) the following new paragraph:

"(35) Qualified small business corporation.--

"(A) General rule.--The term 'qualified small business corporation' means any corporation which--

"(i) has not in excess of 250 employees (as defined in section 3401 (c)) during two out of four calendar quarters which end in the taxable year;

"(ii) has net equity capital not in excess of $1,000,000 as of the end of the taxable year; and

"(iii) has not in excess of 250 shareholders as of the end of the taxable year.

"(B) Special rules.--For purposes of subparagraph (A)--

"(i) in the case of a corporation which is a component member (as defined in section 1563 (b)) of a controlled group of corporations, the term 'corporation' shall include all corporations which are component members of such group.

"(ii) the net equity capital of a corporation is the sum of its money and other property (in an amount equal to the adjusted basis of such property for determining gain on sale or other disposition) less the amount of its indebtedness (other than indebtedness to shareholders which are not member corporations described in clause (i)).

For purposes of clause (i), the term '80 percent' as used in section 1563 (a) shall be '50 percent'."

SECTION-BY-SECTION ANALYSIS

Small Business Taxation Act of 1971

Section 1

Section 1 labels the Act as the "Small Business Taxation Act of 1971," and specifies that all amendments contained in the bill are amendments to the Internal Revenue Code.

Section 2

Section 2 adds a new section 250 to the Internal Revenue Code, allowing corporations a deduction equal to 20 percent of the gross income derived from loans guaranteed by the Small Business Administration. However, the deduction could not reduce taxable income below 60 percent of "economic income" -- taxable income increased by the amount of tax exempt interest and dividends received for the year.

Section 2 (b) of the bill adds a new paragraph (23) to section 1016 (a), providing that for purposes of the deduction for losses (under section 165) and bad debts (under section 166), the basis of a right to receive gross income derived from an SBA-guaranteed loan will be reduced by the amount of the deduction allowable under section 2 (a) of the bill (section 250 of the Code).

The interest deduction will be allowable with respect to loans guaranteed after enactment of the bill; and the computation of economic income for purposes of the limitation will include all income for taxable years ending after such date.

Section 3

Section 3 (a) of the bill amends section 172 (b) (1) by adding a new subparagraph (H), providing that in the case of individuals and qualifying small business corporations (as defined in section 7 of the bill), net operating losses may be carried forward for 10 years, instead of the 5 years allowed under present law. The 10 year carryforward is applicable to taxable years ending after December 31, 1970.

Section 4

Section 4 adds a new subsection (f) to section 501 of the Code, specifying that a non-profit Minority Enterprise Small Business Investment Company (MESBIC) will be treated as an organization described in section 501 (c) (3) of the Code, organized and operated exclusively for charitable purposes. Consequently, payments made to such organizations will be treated as charitable contributions under section 170 of the Code.

In the case of contributions made after November 6, 1969, but before the date of enactment of this bill, contributions to a MESBIC will be treated as charitable contributions if the MESBIC qualifies as a non-profit organization for its first taxable year beginning after the date of enactment.

Section 5

Section 5 adds a new paragraph (7) to section 422 (c), dealing with special rules for qualified stock options. In the case of a

corporation which is a qualified small business corporation (as defined in section 7 of the bill) for the taxable year immediately preceding the year in which an option is granted, an option will be considered "qualified" if it is not exercisable until 8 years after the date it is granted, compared to the 5-year exercise period required in the present law. The provision also permits the shares to be sold or disposed of within one year after the date the option is exercised, as opposed to 3 years under present law. The section applies to options granted after the date of enactment.

Section 6

Section 6 amends section 1371 (a), dealing with electing small business ("Subchapter S") corporations, by rewriting paragraph (2) to increase the number of permissible shareholders in a Subchapter S corporation from 10 to 30, and by providing that a MESBIC may be a shareholder in a Subchapter S corporation. The section applies to taxable years beginning after December 31, 1970.

Section 7

Section 7 of the bill adds a new paragraph (35) to section 7701 (a) of the Code, defining a qualified small business corporation. A corporation falls within this definition if it has not in excess of: (i) 250 employees (as defined in section 3401 (c)) during two out of four calendar quarters in the taxable year; (ii) net equity

capital of $1 million as of the end of the taxable year; and (iii) 250 shareholders as of the end of the taxable year. In applying these tests, a corporation must take into account all component members of a controlled group of corporations of which it is a member. A controlled group of corporations includes any group described in section 1563 (a) of the Code, plus corporations related to the taxpayer through common control of 50 percent of the voting stock, or value, of each corporation in the group.

"Net equity capital" is defined as the adjusted basis of all the taxpayer's property (including money) less the amount of its indebtedness (other than indebtedness to shareholders which are not members of the controlled group of corporations).

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Department of the TREASURY NEWS

NGTON, D.C. 20220   TELEPHONE W04-2041

ENTION: FINANCIAL EDITOR

RELEASE 6:30 P.M.,
day, February 1, 1971.

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced that the tenders for two series of Treasury ls, one series to be an additional issue of the bills dated November 5, 1970, and other series to be dated February 4, 1971, which were offered on January 26, 1971, e opened at the Federal Reserve Banks today. Tenders were invited for $2,000,000,000, 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 May 6, 1971		182-day Treasury bills maturing August 5, 1971	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv. Annual Rate
High	98.975	4.055%	97.932 a/	4.091%
Low	98.954	4.138%	97.907	4.140%
Average	98.961	4.110% 1/	97.920	4.114% 1/

a/ Excepting 1 tender of $40,000
60% of the amount of 91-day bills bid for at the low price was accepted
35% 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	$ 36,195,000	$ 13,380,000	$ 12,845,000	$ 2,215,000
ew York	2,425,245,000	1,597,320,000	2,243,820,000	1,239,270,000
hiladelphia	49,770,000	29,770,000	20,100,000	4,600,000
leveland	45,190,000	33,415,000	39,485,000	17,595,000
ichmond	11,520,000	11,520,000	9,245,000	6,565,000
tlanta	42,475,000	23,235,000	22,040,000	8,695,000
iicago	205,355,000	146,030,000	174,120,000	57,765,000
t. Louis	64,940,000	43,800,000	33,830,000	13,910,000
inneapolis	38,635,000	30,835,000	26,810,000	18,110,000
ansas City	37,095,000	26,535,000	19,585,000	14,185,000
allas	36,385,000	13,885,000	29,550,000	6,920,000
an Francisco	128,490,000	30,450,000	119,855,000	11,725,000
TOTALS	$3,121,295,000	$2,000,175,000 b/	$2,751,285,000	$1,401,555,000 c/

ncludes $257,770,000 noncompetitive tenders accepted at the average price of 98.961
ncludes $93,435,000 noncompetitive tenders accepted at the average price of 97.920
hese rates are on a bank discount basis. The equivalent coupon issue yields are
4.21% for the 91-day bills, and 4.26% for the 182-day bills.

)epartment of the TREASURY

IGTON, D.C. 20220 TELEPHONE W04-2041

NEWS

'OR IMMEDIATE RELEASE February 2, 1971

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 3,400,000,000, or thereabouts, for cash and in exchange for Treasury ills maturing February 11, 1971, in the amount of $3,405,955,000, s follows:

91-day bills (to maturity date) to be issued February 11, 1971, n the amount of $2,000,000,000, or thereabouts, representing an dditional amount of bills dated November 12, 1970, and to mature ay 13, 1971 (CUSIP No. 912793 KH8) originally issued in ne amount of $1,400,925,000, the additional and original bills to be reely interchangeable.

182- day bills, for $1,400,000,000, or thereabouts, to be dated ebruary 11, 1971, and to mature August 12, 1971 CUSIP No. 912793 LD6).

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 Standard me, Monday, February 8, 1971. 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 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 decimal of accepted competitive bids for the respective issues. Settlement fo accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on February 11, 1971, in cash or other immediately available funds or in a like face amount Treasury bills maturing February 11, 1971. Cash and exchange tende 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 sol 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 pai for the bills, whether on original issue or on subsequent purchase, an 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 fr any Federal Reserve Bank or Branch.

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Department of the TREASURY

WASHINGTON, D.C. 20220 TELEPHONE WO4-2041

NEWS

FOR IMMEDIATE RELEASE FEBRUARY 3, 1971

TREASURY SECRETARY KENNEDY NAMES ALFRED J. STOKELY
AS NEW STATE SAVINGS BONDS CHAIRMAN FOR INDIANA

Alfred J. Stokely, President and Chief Executive Officer of Stokely-Van Camp, Inc., Indianapolis, is appointed volunteer State Chairman for the U. S. Savings Bonds Program in Indiana by Secretary of the Treasury David M. Kennedy, effective immediately.

He succeeds Eugene C. Pulliam, President, Indianapolis Newspapers, Inc., who had served as State Chairman since October, 1941.

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

He began working for Stokely Van-Camp, Inc., after graduation from Princeton University in 1938, serving in various areas of sales and production. He was appointed Assistant to the President in 1944, Vice President in 1954, and in 1956, he was elected Executive Vice President and a member of the Board of Directors. He was elected President in 1960, and appointed Chief Executive Officer in 1965.

Stokely is on the Board of Directors of American Fletcher National Bank & Trust Co., American United Life Insurance Co., L. S. Ayres & Co., Indiana Bell Telephone Co., and Indianapolis Power & Light Co., all of Indianapolis.

A Past President of the Defense Supply Association, he is a member of the Administrative Council, National Canners

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Association, and of the Board of Directors, Council of Profit Sharing Industries; Indiana State Chamber of Commerce, and Indianapolis Chamber of Commerce.

He is a member of the Board and on the Executive Committee of the United Fund of Greater Indianapolis. Stokely has served as Indianapolis Area Chairman of the "Share-in-America" Campaign for U. S. Savings Bonds and was the first Metropolitan Indianapolis Chairman for the National Alliance of Businessmen. He is on the Boards of Trustees of Butler University, Indianapolis, and Berea College, Berea, Ky., and is on the Board of the Indianapolis Symphony Orchestra.

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

FOR IMMEDIATE RELEASE February 4, 1971

TREASURY SAYS BRASS KEY BLANKS FROM CANADA
BEING SOLD AT LESS THAN FAIR VALUE

Assistant Secretary of the Treasury Eugene T. Rossides announced today that brass key blanks from Canada are being, and are likely to be, sold at less than fair value within the meaning of the Antidumping Act, 1921, as amended.

Notice of the determination and of the reference of the case to the Tariff Commission will be published in the Federal Register of February 5, 1971.

Instructions are being issued to Customs field officers to withhold appraisement of entries of such merchandise for a period not to exceed 3 months from the date of publication of the "Withholding of Appraisement Notice" in the Federal Register.

During the period September 1, 1969, through August 31, 1970, brass key blanks valued at $339,000 were exported from Canada to the United States.

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Department of the TREASURY

NGTON, D.C. 20220 TELEPHONE W04-2041

NEWS

FOR IMMEDIATE RELEASE February 4, 1971

WITHHOLDING OF APPRAISEMENT ON
TEMPERED SHEET GLASS 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 tempered sheet glass 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.

The total value of tempered sheet glass imported from Japan during the period from January 1969 through September 1970 amounted to approximately $2,695,000.

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Department of the TREASURY

NGTON, D.C. 20220 TELEPHONE W04-2041

NEWS

FOR RELEASE 9:30 A.M.
MONDAY, FEBRUARY 8, 1971

REMARKS BY PROFESSOR HENRY C. WALLICH
SENIOR CONSULTANT TO THE SECRETARY OF THE TREASURY
AT THE 52ND MIDWINTER TRUST CONFERENCE,
THE AMERICAN BANKERS ASSOCIATION
WALDORF-ASTORIA, NEW YORK, NEW YORK
MONDAY, FEBRUARY 8, 1971

THE FUTURE, THE PAST, AND THE INVESTMENT OFFICER

In undertaking to discuss with you the economic outlook, I am aware that the period over which one can hope to anticipate cyclical developments is only a fraction of the time horizon that bank officers with your responsibilities must survey. Your investment judgment, whether it serves families, pension funds, or other institutions, must be valid over decades rather than years. The consequences of your decisions in allocating the capital resources of this great economy will be felt also for long periods. Steel and concrete do not have the liquidity of most financial investments. But cyclical developments are also important to you, and it is the outlook for a year or two ahead that I would like to discuss with you.

At this late date in the forecasting season, I am sure, you are all satiated with GNP forecasts. Thanks to this surfeit, however, it becomes possible to generalize more usefully about the forecasters' underlying assumptions. Such high forecasts as were made this year have come, very predominantly, from

monetarists - forecasters who believe that Federal Reserve policy is the main if not the sole determinant of economic activity. Forecasts in the lower range - $1040 - 1050 billion GNP in 1971 - predominantly were made by fiscalists, who are sometimes referred to more or less invidiously, as Keynesian. These believe that the Federal budget plays an important role in addition to, if not in place of, monetary policy. Last year, you may recall, the roles were reversed. The monetarists predicted recession, the Keynesians moderate expansion. The result was a standoff that each side now seems to interpret as a victory.

I would like to examine first what seems to be common ground for most forecasters at this time. There is general agreement that not much is to be expected from business spending for inventories and certainly not for plans and equipment. The surveys say that spending in dollar terms will be up mildly, in real terms probably down. A look at prevailing excess capacity confirms these estimates, at least outside the utilities field. The recent sharp drop in interest rates, however, the expected resurgence of profits, and the improvement in depreciation rules might make some difference on the upside.

The Federal Government, too, is generally not expected to supply much oomph. Measured in terms of the full employment surplus, the new budget moves in an expansionary direction by no more than $1.3 billion compared to fiscal 1971

ense, the chief Federal item in the goods and services category, is scheduled remain flat in terms of the national income accounts. The budgeted overall rease in Federal spending of $15.1 billion, in terms of national income ounts, is less than 7 percent over fiscal 1971.

Housing, everybody agrees, will be very strong. Uncertainty and disagree- t relate principally to the consumer. How long can he hang on to his present ve normal savings behavior? In 1966-68, he did it for something like six :essive quarters. So far, his selfrestraint has lasted only three quarters. long is it likely to continue? When will the consumer's growing liquidity .n to burn holes in his pockets?

The surveys point to continuing hesitancy. Examination of consumer attitudes . continuous basis suggests that consumer morale is vulnerable to particular matic events, such as last year, the move into Cambodia, the events of State, and Penn Central. Furthermore, there is a plausible theory that ests that consumer sentiment responds more to the direction of the economy to its level. This would imply that once the economy has ceased to de- ᵉ, and even more after it has visibly turned up, the consumer tends to unfreeze. would account for the experience of rather positive consumer attitudes

during the early sixties, when unemployment was high but falling, contrasted with his negative attitudes recently when unemployment was still relatively low but rising.

Still another line of thought, not in conflict with the two I have just mentioned, attributes an important responsibility for consumer behavior to the stockmarket. A drop in the market, and particularly a continuation of a low level once reached, has been found by some econometricians to have a quite drastic impact on consumer spending. Trust officers may know more about this than econometricians and I wonder whether you agree. This approach is embodied in the so-called Federal Reserve - MIT econometric model of the economy, which is reported to be one of the forecasting devices employed by the Federal Reserve. I need hardly mention to this group that most systematic forecasting today is done with the help of more or less complex models. The back of an envelope is still useful, but the computer has certain advantages.

If these efforts to psychoanalyze the consumer are interpreted in the light of what has happened recently in the economy and in the stockmarket, one arrives at fairly optimistic conclusions. On that basis, the consumer should lend strength to the economy in 1971. The economy will need it, given the absence of a strong push from business spending and the only moderate expansiveness of the Federal sector.

Corporate profits are a matter of particular interest to this group. Several factors suggest a favorable outlook. In the recent decline, corporate profits have contracted far more sharply than any other part of the economy, as they invariably do. The share of corporate profits in the GNP reached a low of about eight and one half percent around the middle of 1970, as contrasted with a normal relationship of perhaps ten percent. For today's trillion dollar economy, one hundred billion dollars of pretax profits would be about par. There are factors that make one wonder how easily this "normal" relationship can be restored. One wonders particularly about the continuing pressure of abnormal wage increases, and the growing costs of protecting and improving the environment. On the other hand, there is a prospect of rapidly growing productivity for at least a year. The very inadaquate productivity gains of 1970 should be made up eventually. The relatively modest level of new plans and equipment spending suggests that business will not be burdened unduly with the high start-up costs inherent in massive new installations.

In a climate of rapid productivity gains, inflationary pressures are likely to abate somewhat. This depends very much, of course, on the policies followed by the Federal Reserve. The Federal deficit projected in the budget, assuming it is soundly financed, does not seem to me to hold an inflationary threat, it would tend to vanish when full employment is reached, given the larger revenues to be expected from a full employment tax base. It will be important, however, to avoid renewed overexpansion. Else any subsidence of inflation is likely to prove temporary, and inflation may mount again when productivity gains slow down to normal while excess demand pressures, now well under control, begin to revive.

Investment in a Post-Inflationary Period

Investment must be oriented toward the future. That is why this talk began with the Review of the Economic Outlook. But sometimes it is useful also to look at the past, because the past sometimes has a lesson. Frequently, no doubt, an invitation to learn from the past is simply an invitation to fight the last war over again. But the present seems to be a particularly good moment for such a review. A whole cycle of investment experience lies behind us. We are at the start of a new cycle. The old one has taught us that successful investment is more difficult than many imagined. What other lessons are there?

One set of lessons pertains to growth. We know now that trees not only on't grow to the sky; some trees don't seem to grow at all. At a minimum we ave seen that growth is a very long run process that cannot be relied upon rom year to year. This conclusion, incidentally, we might have drawn also rom earlier experience, since it took the Dow Jones Average some 25 years, after 929, to pass its earlier peak. Investors who want to use capital gains for urrent expenses had better salt some gains away first.

Another lesson pertains to inflation. We all know now that there is no erfect hedge against inflation. The stockmarket has badly let down its supporters. e bond market has reminded investors that during an inflation they may lose ot only in terms of purchasing power, but also of market value. One of the east bad inflation hedges, curiously, has been cash or its equivalent. Short rm interest rates have been high enough so that Treasury bills and other short rm assets have about held their own against inflation, except where taxes ve eaten into the inflation premium.

To what extent should investment policy take the possibility of future flation to account? One answer is that, inasmuch as there have been no

really good hedges, the question is not relevant. That, surely, would be going too far. There are important decisions that hinge on one's expectations of future inflation.

Let me say first of all that I think it is quite wrong to believe that "prices must always rise." At almost all times there are some prices that are falling. Prices are by no means "inflexible downwards." What matters is the proportion. A wise economic policy can succeed in raising the proportion of prices that are falling and reduce the proportion that is rising. We can have stability.

What Do People Expect?

I readily concede, however, that not many people today expect price stability. For the investor it then becomes important to clarify his own price expectations and also to understand those of others - of other investors, consumers, business executives. Economists routinely make estimates of the rate of inflation that people "expect." They do this on the assumption that people are guided by past experience. Estimates of this kind were made as early as 1900, when it was found that it took investors something like 20 years to make up their minds that they were in an inflationary or deflationary period. Investors were right to reach conclusions slowly in those days, because there were prolonged periods

declining prices. Today, similar calculations seem to show that investors
.ke up their minds a great deal faster. These calculations also seem to show
ıat many people today have higher expectations of inflation than they did years
;o.

I feel confident that anyone expecting inflation to continue at its recent
ıte will be pleasantly disappointed. But even so, the fear at least of infla-
.on will remain high and will take time to be dispelled from people's minds.
ıch high inflationary expectations impose a penalty upon the capital markets.
ıey tend to raise interest rates, and thereby to depress both the bond and
ıe stockmarkets. Because inflation is inherently an unstable condition, it
.lls for a risk premium. People expecting a high rate of inflation will tend
add a premium for risk to all their decisions.

Some theorists tell us that if investors correctly anticipate inflation,
.ey have nothing to fear from it. Interest rates, so as the argument goes,
ll be high and will protect the bond holder. Equities will benefit from more
pidly rising earnings, since the latter can hardly help following the price
end to some extent. But high interest rates will place a severe discount on
ese earnings, and on balance equities will maintain just about that relation
the price level that they would have had under stable conditions.

On way of interpreting this theory is to conclude that in an economy fully attuned to inflation, there would be no need to look for inflation hedges. Everything will be a hedge of sorts, no asset will gain or lose from inflation. I cannot imagine that this analysis is adequate as a basis for responsible investment policy. There are too many if's in the picture. The concept of a stable rate of inflation, correctly anticipated and discounted by the market, is almost a contradiction in terms. The investor no more than the businessman or the wage earner can live at peace with inflation. The only good way of dealing with inflation is to end it.

<u>The New Look in Interest Rates</u>.

Interest rates have responded to inflation. A calculation made by the Morgan Guaranty Trust Company shows that, if the rate of inflation is deducted from the long term interest rate, there remains a rather stable residual in the neighborhood of 3 percent, which may represent the so called real rate of interest, i.e. interest after inflation. More complicated estimates made by the Federal Reserve Bank of St. Louis likewise seem to show a rather stable real rate usually in the range of 3-4 percent.

For the investor, this is a new development. We have had high rates of inflation before - immediately after World War II, during the Korean War, and to a lesser extent in the middle 50's. But interest rates never responded in

this way. Interest rates have behaved uniquely, too, with respect to their timing. They continued to go up during much of 1970, long after the economy had turned down and long also after the Federal Reserve had shifted its policy toward ease. The significance of this behavior of rates remains to be explained.

The recent experience indicates that on this one occasion at least interest rates have risen high enough to defend the investor against inflation. Previously it had been more or less taken for granted that the fixed interest investor was bound to be victimized by inflation. That had been one reason for the theory that stocks were an inflation hedge. But interest rates have defended only the investor who held short term assets, and the buyer of new bonds. Precisely because rates rose enough to protect these investors, their movement inflicted great damage on holders of outstanding bonds. One is bound to conclude, therefore, that even very high interest rates do not adequately protect long term investors except perhaps after many years.

It is worth noting that high interest rates also have a peculiarly adverse effect upon growth stocks. Growth stocks are valued on the basis of the distant future. It is precisely that future that is discounted most severely by high interest rates, as compared with the immediate future upon which the valuation of incomes stocks tends to rest.

Investment Experience.

Finally, I would like to venture upon an interpretation of the recent market experience that must necessarily be very tentative. Contrary to what one might fear, however, the conelusions arrive at an endorsement of what I believe to be the policies and procedures of most trust departments. Fortune Magazine, commenting on the recent Twentieth Century Fund Report on "Mutual Funds and Other Institutional Investors," by Irwin Friend, Marshall Blume and Jean Crocket, concluded, "The continuing failure of Wall Street professionals to demonstrate that they have any edge at all over dart-throwing. . . . may now be taken as an established fact." Fortune refers, of course, to the ever fascinating theory variously known as the "Random Walk" or "Dart Throwing." Events in the stock-market during the last few years throw a curious light on this theory.

One of the obvious challenges to the theory that one cannot outsmart the market because the best brains have already put the market at the level where it belongs, was the spectacular success, during the middle 60's, of a small number of performance operators. It was not easy, in the face of this kind of success, to argue that these were just lucky hits achieved with darts thrown at the Stock Market page from a distance. Now that we have had the downward phase of the movement, however, the success of the performance operators no longer looks quite so challenging. They did not systematically outperform the

market over the entire period. They may simply have taken higher risks, for which even the dart throwing theory expects investors to be rewarded, so that, on balance and on average, superior profits remain despite substantial losses. This would not be inconsistent with the theory.

Another interpretation is possible. It may well be that the performance operators did develop something new, and that for a while they had a kind of monopoly on a technique that enabled them to beat the market. Random Walk theory, broadly interpreted, allows for this possibility. It simply asserts that if and when some means of beating the market is invented, the market will compete it away as soon as it becomes generally known. That may well be what happened as increasing numbers of investors got drawn into the performance game. Now that almost everybody knows how to play it, the game seems to be up.

In another sense, however, recent experience is a challenge to the dart throwing theory. It is an experience that confirms the wisdom of traditional investment policies, as I believe these policies are practiced by trust officers all over the country. If the record could be made known it would show, I believe, that most trust departments took little interest in the late lamented performance stocks. If so, events so far have proved them right, of course. The challenge to which I refer is this. Recent extreme gyrations of some stocks, in my view, seriously question the assertion of the dart throwing theory that

stocks always are valued at the price that the best analysis suggests. It is hard to believe that the stocks of which I am speaking should have been correctly valued first, in the fall of 1968, and again in the summer of 1970, when they sold for small fractions of their earlier prices. On the contrary, such extreme gyrations seem to show that these stocks were not correctly valued, and that the application of wisdom and good sense could discover this.

This, I believe, is precisely what most trust officers did for their customers. Whatever the validity of the theory in other and broader contexts, recent performance seems to show that in some ways one could do better than by throwing darts, and that many investment officers did do better. In reviewing the difficulties of the past, and in facing the perplexities of the future, it is good to be able to say that some things were done right.

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

NEWS

FOR IMMEDIATE RELEASE February 8, 1971

HAMPTON A. RABON, JR., RETIRES FROM TREASURY

Hampton A. Rabon, Jr., Deputy Fiscal Assistant Secretary of the Treasury, retired on February 6 after almost thirty-eight years of public service.

Mr. Rabon's expertise in banking and financial affairs enabled him to make exceptional contributions to Government operations worldwide. His contributions were honored by Secretary David M. Kennedy when he conferred on Mr. Rabon the Department's Exceptional Service Award. In making the award, Secretary Kennedy noted Mr. Rabon's significant role in the development of the Treasury tax and loan system to meet the enormous changes that occurred in Government operations during his stewardship and his role in developing the military banking program. For his role in the facility program, the Department of Defense in April 1969 awarded him the Secretary of Defense Meritorious Civilian Medal, the first civilian outside the Department of Defense to be so honored.

Mr. Rabon's unique and distinguished career in Treasury began when he started as a file clerk with the Bureau of Internal Revenue Service in 1934 and progressed to the highest level open to career employees short of Assistant Secretary.

A graduate of Camden High School, Camden, South Carolina, Mr. Rabon, 59, received BCS and MCS degrees from Benjamin Franklin University, Washington, D.C., in 1938 and 1939, respectively. He is married to the former Ella Mae Clark of Jackson Springs, North Carolina. They live at 5501 Nevada Avenue, N. W., Washington, D. C.

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Department of the TREASURY

NGTON, D.C. 20220 TELEPHONE W04-2041

NEWS

February 8, 1971

FOR IMMEDIATE RELEASE

SOME QUESTIONS ON REVENUE SHARING

1. Is there any "excess" revenue to share?

The Administration is not talking about sending back to the states "excess" revenue. Rather, the Administration wants to re-arrange existing Federal priorities. To express it another way, Revenue Sharing will not raise the existing federal tax burden, but will result in making available to hard-pressed state and local governments a portion of the automatic growth in federal revenues under existing tax rates.

2. Will the amounts proposed under General Revenue Sharing be enough to do any good, particularly for the big cities?

The amounts will be generous, reaching a $5 billion level in the first 12 months of operation. The formula provides bigger amounts for the cities, with their heavy responsibilities and high taxes, and smaller amounts to "tax havens" with fewer civic responsibilities. In practice, nearly every large city will receive not just absolutely more money, but also more money per capita than its smaller neighbors. The large central cities will receive more revenue sharing money not just because they are bigger, but because they bear a larger fiscal burden.

3. Why not leave the money in the states and cities where it originates -- why bother to arrange an expensive "round-trip" to Washington for tax dollars?

Actually, the Department of the Treasury has lower tax-collection costs than any state or local government agency. Current collection costs are about 45 cents per $100 of income. Revenue Sharing will not require any new Federal agency or bureau. All that will be needed is a check-writing procedure, so the round-trip should be economical.

4. Are state and local governments competent to use Revenue Sharing money effectively?

No one can guarantee that all tax money is always used wisely. No one can say that all Federal spending is always wise. But the Revenue Sharing plan calls for regular accounting to the Treasury on the expenditure of Revenue Sharing funds, and gives the Treasury the authority to inspect the books and conduct the audits needed should questions arise.

5. Does Revenue Sharing separate the responsibility for raising taxes from the act of spending tax revenue?

The precedent for federal collection and local spending of funds already has been set -- through the present grants-in-aid system. Almost $30 billion a year now goes to state and local governments in the form of categorial grants. The real question is control over the funds. The law provides for proper accounting and for preservation of civil rights in any Revenue Sharing grants, as in the present system. Revenue Sharing adds an essential additional element -- recognition that problems vary from city to city and state to state across the country, so that local authorities need to have the power this act gives them, to use available funds where they are really needed to solve particular local problems.

6. How will minorities be protected under Revenue Sharing?

Full civil rights protection will cover expenditures under General Revenue Sharing, including Title VI of the Civil Rights Act of 1964, which applies to grants-in-aid now.

7. What will the controls be on local spending of federal funds?

The General Revenue Sharing law will require each state and local government receiving the funds to properly account for their use. Quarterly reports will be required to the Treasury to ensure that the funds have been used for a lawful governmental purpose. If any questions arise, the Treasury will have full access to the books and financial records of the state and local governments and the Secretary of the Treasury will have the power to suspend or cancel payments when he finds that the Federal law has not been complied with.

8. Will Revenue Sharing mean local tax cuts?

Revenue Sharing certainly will reduce the upward pressure on state and local taxes, such as property taxes. Whether the money is used for tax reduction, debt reduction or expenditure increases will be decided by the local government involved.

9. Will Revenue Sharing cut down on the amount of money available for federal grants-in-aid programs?

The total amount of federal financial assistance to state and local governments will rise substantially. In Fiscal 1970 the federal government paid out $24 billion in grants to states and localities. In Fiscal 1971 the estimate is $30 billion. The budget for Fiscal 1972 shows a combined total of $38 billion in grants-in-aid and Revenue Sharing, a more-than-25% increase over the 1971 level. The basic change that the Administration is making is to permit greater local responsibility for deciding how to spend that portion of the money which comes via the Revenue Sharing program.

10. Is the Administration willing to accept Amendments to its bill?

No one maintains the Administration bill is perfect, but it is based upon ideas that resulted from consultations with city, state and county leaders throughout the nation. It is an attempt to meet real problems. If anyone comes forward with a sensible change, the Administration obviously will be glad to consider it.

11. How does the 1971 plan differ from last year's Revenue Sharing plan?

There are three key modifications incorporated.

First, the new plan calls for $5 billion in General Revenue Sharing in the first 12 months, whereas under last year's bill the $5 billion figure would not be reached until Fiscal 1976.

Second, the 1971 bill calls for allocating a greater proportion of the funds to local communities (on the average 48 percent against last year's 30 percent). In addition the new bill is more flexible, allowing states and localities to set up their own formula for dividing the federal funds.

Third, the 1971 plan has a new element, the consolidated block-grant program called "Special Revenue Sharing." Under this Special Revenue Sharing plan, federal funds will be allocated in certain broad, general areas (such as "Education") rather than being provided for narrowly restricted programs (such as "School Cafeteria Equipment)

12. Why aren't any strings attached?

It is not correct to say there are no strings. The fact is there are accounting and civil rights "strings." However, the purpose for which the program was set up was to allow local decision-making on the expenditure of federal funds. That is the essential new element of the plan. Accountability remains.

13. Why not just expand the present system of grants?

Fundamentally because it is obvious that the present system of grants-in-aid is not working. Despite federal aid totaling some $30 billion this year, states and cities and counties find themselves in what they variously describe as a "squeeze" or a "crisis."

The complaints about the present system basically include protests about lack of local decision-making on what to spend the money for -- all the decisions are made in Washington on a national basis, rather than attacking particular local problems in any area. There are other complaints about red tape, overlapping and confusion because some 500 programs are involved.

One city may be spending money on libraries because federal funds are available for libraries. But at the same time what that city really may need is money for fire engines. Under Revenue Sharing, this sort of problem would be avoided.

14. What is the Administration's stand on the proposed Constitutional Amendment to force Revenue Sharing?

The Administration has made it clear that it believes that Congressional legislation is the appropriate route for obtaining Revenue Sharing.

15. Will Revenue Sharing result in a cut-off of some local programs now funded by federal grants?

In the case of Special Revenue Sharing programs (where special grants in aid are being folded in), each state and local government will be assured that they will receive at least as much federal funding as they now do for the programs being consolidated. Hence, the state and local governments will be able to continue operating these programs -- but only if they wish to do so. They will have the option under Special Revenue Sharing to use, say, Urban Development funds for whatever they consider to be high priority areas that will help develop their urban community.

16. Why is Revenue Sharing needed now?

The major cities all across the nation are in an increasing fiscal squeeze. Many of the states are in a similar bind. Something must be done. The Administration, after long study, is convinced that the right answer is Revenue Sharing.

17. Would the Administration agree to a Tax Credit System as an alternate way to solve the problem?

The Administration believes that Revenue Sharing is a better way, because it makes funds directly available to hard-pressed states and localities. A federal tax credit for state and local income taxes would only help hard-pressed state and local governments to the extent that it encouraged them to raise their own tax rates further still. Revenue Sharing does not require any increase in taxes but rather a re-allocation of existing revenues.

18. If Congress rejects Revenue Sharing, will the programs involved in Special Revenue Sharing die?

The Administration believes it is better to concentrate on the Revenue Sharing plan rather than debate all the potential "ifs."

19. Are you satisfied with the penalty provisions of the bill?

Yes. The Administration believes they provide adequate safeguards to ensure honest expenditure of funds and ensure a non-discriminatory policy in expenditure of funds.

20. What is the Administration's position on having the government take over more -- not fewer -- special grant programs? For instance, take over direct payment of welfare checks to those on relief?

The Administration is committed to the concept of New Federalism -- meaning more regional and local decision-making and control, rather than more centralized, cumbersome control.

21. Will Revenue Sharing mean scrapping of the Appalachian Commission?

There is nothing in the act to prevent regional cooperation. But the act leaves it up to states and cities as to whether they want to remain in regional groupings. The plan calls for having the Appalachian Commission funds placed in the Special Revenue Sharing category. The states could decide to continue the program -- or change.

22. Can states and cities count on Revenue Sharing year after year or will it be one of those programs that is turned on and off?

The plan calls for assigning 1.3 percent of the federal income tax base to General Revenue Sharing on a permanent basis. This will be available every year without being subject to the uncertainties of the appropriation process. Funds for Special Revenue Sharing will be appropriated annually.

23. Will Revenue Sharing ensure that local governments provide more of the services local people need?

Revenue Sharing is not a cure-all. It is designed to turn the decision-making process back to cities and states. But decisions still will have to be made.

24. What is to prevent states from taking all the federal funds and then just short-changing the cities?

The system set up calls for a mandatory "pass-through" from the states to counties and localities. If a state government does not pay any local government its fair share as stipulated by the act, the law requires the Secretary of the Treasury to cease making Revenue Sharing payments to that state.

25. Why did the 1970 bill fail to reach enactment?

For one thing, no hearings were ever held. The bill was not reported to the floor for consideration. We do anticipate hearings this year.

26. When does the Administration hope the bill will become law?

The legislation proposes that the first payments cover the period beginning October 1, 1971.

27. Why is the Administration Plan divided into two parts?

Because the plan involves two concepts.

First, there is General Revenue Sharing, under which money will flow to cities and states to spend as they deem fit, in any area and for any legal purpose.

Second, there is Special Revenue Sharing under which some funds will be given to states and localities for use in special broad areas -- such as education, housing, urban development, law enforcement, etc. This second part of the program will ensure that funds are spent for broad national purposes -- but decision on exactly what part of education, etc., the money is to be spent on remains a local responsibility.

28. When will the exact formulas for each type of Revenue Sharing be known?

The formulas for General Revenue Sharing are spelled out in the Administration bill and accompanying section-by-section analysis.

The formulas for Special Revenue Sharing are being developed.

29. Do any foreign nations have Revenue Sharing?

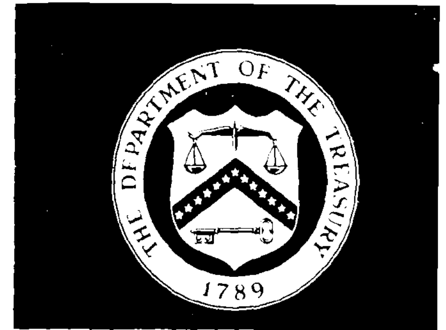
Canada, Australia, and others.

30. Why did the Administration propose Revenue Sharing?

Because we believe it is the most effective way to respond to the very real fiscal crises faced by the citizens of so many states and localities.

)epartment of the TREASURY

NEWS



IGTON, D.C. 20220 TELEPHONE W04-2041

NTION: FINANCIAL EDITOR

RELEASE 6:30 P.M.,

ay, February 8, 1971

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced that the tenders for two series of Treasury s, one series to be an additional issue of the bills dated November 12, 1970 , and other series to be dated February 11, 1971 , which were offered on February 2, 1971, opened at the Federal Reserve Banks today. Tenders were invited for $2,000,000,000, 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 May 13, 1971		:	182-day Treasury bills maturing August 12, 1971	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	99.037	3.810%	:	98.069	3.820%
Low	99.026	3.853%	:	98.049	3.859%
Average	99.028	3.845% 1/	:	98.059	3.839% 1/

70% of the amount of 91-day bills bid for at the low price was accepted
6% of the amount of 182-day bills bid for at the low price was accepted

TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

strict	Applied For	Accepted	:	Applied For	Accepted
ton	$ 26,545,000	$ 13,235,000	:	$ 12,130,000	$ 2,130,000
York	2,881,735,000	1,682,465,000	:	2,180,020,000	1,232,160,000
ladelphia	39,880,000	19,880,000	:	10,650,000	5,450,000
veland	42,035,000	27,050,000	:	35,935,000	30,035,000
hmond	18,450,000	14,845,000	:	13,025,000	5,025,000
anta	48,585,000	21,750,000	:	32,895,000	14,325,000
cago	266,570,000	94,010,000	:	199,095,000	59,940,000
Louis	50,945,000	27,045,000	:	26,165,000	8,685,000
neapolis	33,520,000	9,990,000	:	30,460,000	11,260,000
sas City	43,345,000	24,065,000	:	26,145,000	9,645,000
las	37,995,000	14,595,000	:	32,340,000	9,840,000
Francisco	148,440,000	53,090,000	:	102,505,000	11,565,000
TOTALS	$3,638,045,000	$2,002,020,000 a/		$2,701,365,000	$1,400,060,000 b/

cludes $267,760,000 noncompetitive tenders accepted at the average price of 99.028
cludes $104,795,000 noncompetitive tenders accepted at the average price of 98.059
ese rates are on a bank discount basis. The equivalent coupon issue yields are 4% for the 91-day bills, and 3.97% for the 182-day bills.

UNITED STATES SAVINGS BONDS ISSUED AND REDEEMED THROUGH January 31, 1971
(Dollar amounts in millions – rounded and will not necessarily add to totals)

DESCRIPTION	AMOUNT ISSUED 1/	AMOUNT REDEEMED 1/	AMOUNT OUTSTANDING 2/	% OUTSTANDING OF AMOUNT ISSUED
RED				
es A-1935 thru D-1941	5,003	4,998	6	.12
es F and G-1941 thru 1952	29,521	29,491	30	.10
es J and K-1952 thru 1957	3,754	3,740	14	.37
TURED				
es E 3/ :				
1941	1,898	1,697	200	10.54
1942	8,372	7,493	880	10.51
1943	13,464	12,084	1,380	10.25
1944	15,716	14,020	1,696	10.79
1945	12,361	10,870	1,491	12.06
1946	5,619	4,775	844	15.02
1947	5,341	4,396	945	17.69
1948	5,530	4,472	1,058	19.13
1949	5,473	4,351	1,122	20.50
1950	4,792	3,757	1,035	21.60
1951	4,142	3,244	898	21.68
1952	4,337	3,378	960	22.14
1953	4,958	3,782	1,175	23.70
1954	5,055	3,795	1,260	24.93
1955	5,267	3,907	1,361	25.84
1956	5,091	3,738	1,353	26.58
1957	4,797	3,467	1,330	27.73
1958	4,685	3,279	1,407	30.03
1959	4,393	3,027	1,366	31.09
1960	4,409	2,930	1,479	33.55
1961	4,476	2,833	1,643	36.71
1962	4,333	2,657	1,676	38.68
1963	4,858	2,745	2,112	43.47
1964	4,714	2,699	2,015	42.75
1965	4,610	2,616	1,994	43.25
1966	4,966	2,694	2,272	45.75
1967	4,917	2,594	2,323	47.24
1968	4,665	2,355	2,311	49.54
1969	4,375	1,970	2,405	54.97
1970	3,875	1,049	2,826	72.93
nclassified	546	461	85	15.57
tal Series E	172,035	127,133	44,902	26.10
H (1952 thru May, 1959) 3/	5,485	3,737	1,747	31.85
H (June, 1959 thru 1970)	7,658	2,379	5,279	68.93
tal Series H	13,142	6,116	7,027	53.47
tal Series E and H	185,178	133,249	51,928	28.04
ries — Total matured	38,277	38,228	49	.13
ries — Total unmatured	185,178	133,249	51,928	28.04
ries — Grand Total	223,455	171,477	51,978	23.26

ccrued discount.
lemption value.
d owner bonds may be held and will earn interest for additional periods after original maturity dates.

A BILL

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

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

SHORT TITLE

SEC. 101. This Act may be cited as the "General Revenue Sharing Act of 1971".

DEFINITIONS

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

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

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

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

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

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

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

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

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

(9) the term "Attorney General" means the Attorney General of the United States or his delegate;

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

(11) the term "Bureau of the Census" means the Bureau of the Census of the Department of Commerce;

(12) the term "taxable income" means taxable income as defined by the internal revenue laws of the United States;

(13) the term "units of government" means all units of local government (including independent school districts and special districts) as such terms are defined and used by the Bureau of the Census;

(14) the term "major municipality" means any municipality with a population of 2,500 or more as reported by the Bureau of the Census;

(15) the term "major township" means any township--

(a) with a population of 2,500 or more as reported by the Bureau of the Census, and

(b) the employment ratio for which is not less than one-half of the average employment ratio of all major municipalities in such State; and

(16) the term "employment ratio" means a fraction the numerator of which is the total number of employees of any major municipality or major township as reported by the Bureau of the Census and the denominator of which is the population of such governmental unit.

(b) Where appropriate, the definitions in subsection (a) shall be based on the latest published reports of the Department of Commerce, and on the internal revenue laws in effect, on the date of enactment of this Act. The data used in applying these definitions shall be the latest published data referable to the same point or period in time. The Secretary may, by regulation, change or otherwise modify the definitions in subsection (a) in order to reflect any change or modification thereof made subsequent to such date by the Department of Commerce or by a revision of the internal revenue laws.

REVENUE SHARING APPROPRIATION

SEC. 301. (a) There is hereby appropriated for general revenue sharing for the fiscal year beginning July 1, 1971, and for each fiscal year thereafter, an amount, as determined by the Secretary, equal to the percentages provided in subsection (b) of this section multiplied by the total taxable income reported on Federal individual income tax returns for the calendar year for which the latest published statistical data are available from the Department of the Treasury at the beginning of such fiscal year.

(b) For the purposes of subsection (a), the applicable percentage is 0.96 percent for the fiscal year beginning July 1, 1971, and 1.3 percent for each fiscal year thereafter.

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

PAYMENTS TO THE STATES

SEC. 401. (a) For any fiscal year, each State is entitled to an amount as determined by the Secretary, equal to--

(1) (i) the amount appropriated for such year pursuant to section 301 plus any amount not distributed during the previous fiscal year pursuant to subsection (b), less

(ii) an amount equal to 10 percent of the sum of the amounts described in subparagraph (i), and

(2) multiplied by the factor for such State.

(b) Except as provided in subsection (f), each State which has filed an alternative formula under section 501(c) shall receive an amount equal to the amount described in subparagraph (a)(1)(ii) multiplied by the factor for such State.

(c) Each State's factor shall be obtained by--

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

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

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

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

(2) the total personal income for such State.

(e) The amount determined under subsection (a) of this section shall be paid by the Secretary to each State at such times as the Secretary may determine during any fiscal year, but not less often than once each calendar year quarter. A pro rata portion of the amount described in subsection (b) shall be paid by the Secretary for each calendar year quarter to which an alternative formula applies, at such times as the Secretary may determine during any fiscal year but not less often than once each such quarter.

(f) The District of Columbia shall receive its share of the amount described in subsection (b) notwithstanding the requirements of section 501(c).

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

PAYMENTS BY STATES TO LOCAL GOVERNMENTS

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

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

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

(2) the ratio of each such local government's general revenue to the total general revenue of all local governments in such State.

(c) To encourage States to take the initiative in strengthening the fiscal position of their local governments and to maximize flexibility in the use of the payments authorized by this Act for meeting the particular needs of differing State and local fiscal systems, the Secretary shall accept an alternative formula for the allocation of

funds as required by subsection (a) of this section (and any modification or termination of such formula) if requested by the State, provided such formula (or modification or termination of such formula) is--

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

(2) approved by a formal resolution by more than one-half of the governing bodies of each of the following classes of government in such State:

(i) major municipalities,

(ii) counties, and

(iii) major townships.

In each such class of government, approval must be by governing bodies representing a majority of the population in such class. A statement of such formula indicating approval thereof in accordance with this paragraph (including a certification by the Bureau of the Census which enumerates major municipalities, counties, and major townships included in the classes referred to above) shall be filed by the Governor with the Secretary not later than 90 days preceding the first calendar year quarter to which such formula would be applicable. The provisions of such formula shall govern the use of funds allocated by this Act to local governments and shall apply for the next five fiscal years or for any lesser period approved pursuant to this subsection.

(d) Except when a formula has been adopted pursuant to subsection (c), a State's aggregate payments to all of its local governments for such State's fiscal year (from all sources other than amounts received under this Act) shall be an amount which represents not less than the average proportion of such State's general revenues received by its local governments for the three fiscal years of such State next preceding the date of enactment of this Act, unless such State demonstrates to the satisfaction of the Secretary that there has been a transfer from local governments to the State of financial responsibility for the direct support of facilities or services previously the responsibility of local governments.

QUALIFICATIONS

SEC. 601. Participation by a State in the program established by this Act shall constitute a waiver by the State of its immunity from suit by its local governments pursuant to this Act. The Governor shall, on behalf of the State and any local government which may receive any payments pursuant to this Act, give to the Secretary such assurances as he may require that such State and its local governments will--

(a) use such payments for its governmental purposes;

(b) use such fiscal and accounting procedures as may be necessary to assure (1) proper accounting for payments received by such State and its local governments, and (2) proper disbursement of amounts to which the local governments are entitled;

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

(d) make such reports to the Secretary as he may reasonably require, including any computations made pursuant to section 501.

POWERS OF THE SECRETARY

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

(b) If the Secretary determines that a State has failed to comply substantially with any provision of this Act, other than section 1101, or any rule or regulation issued pursuant thereto,

(1) he may refer the matter to the Attorney General with a recommendation that an appropriate civil action be instituted; or

(2) after giving reasonable notice and opportunity for a hearing to the Governor of such State, he shall notify the Governor that if such State fails to take corrective action within 60 days from the date of such notification, further payments to such State in excess of the amounts to which the local governments of such State are entitled under section 501 shall be withheld for

the remainder of the fiscal year and for any subsequent fiscal year until such time as the Secretary is satisfied that appropriate corrective action has been taken and that there will no longer be any failure to comply. Until he is satisfied, the Secretary shall make no further payments of such amounts. In the case of the failure of the State to comply, for a period in excess of 6 months after the expiration of the 60-day notice, the Secretary shall forthwith cancel any payments withheld pursuant to this paragraph for the current and for any subsequent fiscal year and shall reapportion and pay such cancelled payments to all other States then entitled to receive payments under section 401 in proportion to the original installments paid to such States for the fiscal year to which such cancelled payments pertain. Such payments to all other States shall be considered payments made pursuant to section 401.

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

(d) When a matter is referred to the Attorney General pursuant to subsection (b)(1), the Attorney General may bring a civil action in any appropriate United States district court for such relief as may be appropriate, including injunctive relief.

(e) The Governor shall be responsible to the Secretary for determining that local governments within his State have complied with the provisions of this Act, other than section 1101, and the rules and regulations issued pursuant thereto. If, after giving reasonable notice and an opportunity for a hearing to the chief executive officer of a local government of such State, the Governor determines that such local government has failed to comply substantially with any provision of this Act, other than section 1101, or any rule or regulation issued pursuant thereto, the Governor shall forthwith notify such local government that if it fails to take corrective action within 60 days from the date of such notification, further payments to it under this Act will be withheld for the remainder of the fiscal year and for any subsequent fiscal year until such time as he is satisfied that appropriate corrective action has been taken and that there will no longer be any failure to comply. The Governor shall forthwith notify the Secretary of his action.

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

JUDICIAL REVIEW

SEC. 801. (a) Any State or local government which receives a 60-day notice under section 701 may, within 60 days after receiving such notice, file with the United States Court of Appeals for the circuit in which such State or local government is located, or in the United States Court of Appeals for the District of Columbia, a petition for review of the Secretary's action. A copy of the petition shall forthwith be transmitted to the Secretary; a copy shall also forthwith be transmitted to the Attorney General, who shall represent the Secretary in any litigation.

(b) The Secretary shall file in the court the record of the proceeding on which he based his action, as provided in section 2112 of Title 28, United States Code. No objection to the action of the Secretary shall be considered by the court unless such objection has been urged before the Secretary.

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

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new or modified findings of fact shall likewise be conclusive if supported by substantial evidence.

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

(e) In the event that judicial proceedings are instituted pursuant to this section, the Secretary shall after the expiration of the 6-month period provided in sections 701(b) or 701(f), or the point in time when any judicial decision becomes final and the time for appeal or rehearing has expired, whichever period is later, cancel, reapportion and pay any payments withheld pursuant to section 701 for the current and for any subsequent fiscal years.

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

REPORT BY THE SECRETARY

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

ADMINISTRATIVE EXPENSES

SEC. 1001. There is hereby authorized to be appropriated such sums as may be necessary for the administrative expenses required to carry out the functions of the Government of the United States under this Act.

NONDISCRIMINATION PROVISION.

SEC. 1101(a). No person in the United States shall on the ground of race, color or national origin be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity funded in whole or in part with general revenue sharing funds.

(b)(1) Whenever the Secretary determines that any State has failed to comply with subsection (a) or an applicable regulation, he shall attempt to secure compliance by voluntary means. If the Secretary determines that compliance cannot be secured by voluntary means, he shall have the authority to (i) refer the matter to the Attorney General with a recommendation that an appropriate civil action be instituted; (ii) exercise the powers and functions provided by Title VI of the Civil Rights Act of 1964 (42 U.S.C.§2000d); or (iii) take such other action as may be provided by law.

(2) Whenever the Secretary determines that a local government has failed to comply with subsection (a) or an applicable regulation, he shall notify the Governor of the State in which the local government is located of the noncompliance and shall request the Governor to secure compliance. If within a reasonable period of time the State fails or refuses to secure compliance, the Secretary shall have the authority to (i) refer the matter to the Attorney General with a recommendation that an appropriate civil action be instituted; (ii) exercise the powers and functions provided by Title VI of the Civil Rights Act of 1964 (42 U.S.C.§2000d); or (iii) take such other action as may be provided by law.

(c) When a matter is referred to the Attorney General pursuant to subsection (b), or whenever he has reason to believe that a State or local government is engaged in a pattern or practice in violation of the provisions of this section, the Attorney General may bring a civil action in any appropriate United States district court for such relief as may be appropriate, including injunctive relief.

EFFECTIVE DATE.

SEC. 1201. The effective date of this Act shall be the date of enactment; however, the first payment shall cover the period beginning October 1, 1971.

January 29, 1971

SECTION 101--SHORT TITLE

(a) Short title.--Subsection (a) of section 101 provides that the Act may be cited as the "General Revenue Sharing Act of 1971."

SECTION 201--DEFINITIONS

(a) In general.--Subsection (a) provides general definitions for purposes of the Act.

Fiscal year.

Paragraph (1) provides that the term "fiscal year" means the fiscal year of the Government of the United States.

General revenue.

Paragraph (2) provides that the term "general revenue" of State and local governments means general revenue from their own resources, as defined by the Bureau of the Census of the Department of Commerce, provided that in the case of the District of Columbia it includes the Federal payment authorized under 47 D.C. Code section 2501(a).

Governor.

Paragraph (3) provides that the term "Governor" means the chief executive officer of a State or his delegate.

Individual income tax returns.

Paragraph (4) provides that the term "individual income tax returns" means the returns of tax required to be filed on the income of individuals under the internal revenue laws of the United States.

Local government.

Paragraph (5) provides that the term "local government" means a municipality, county or township (but does not include independent school districts or special districts) as such terms are defined and used by the Bureau of the Census.

Personal income.

Paragraph (6) provides that the term "personal income" means personal income as defined by the Office of Business Economics of the Department of Commerce.

Population.

Paragraph (7) provides that the term "population" means total resident population, as defined and used by the Bureau of the Census.

Secretary.

Paragraph (8) provides that the term "Secretary" means the Secretary of the Treasury or his delegate.

Attorney General.

Paragraph (9) provides that the term "Attorney General" means the Attorney General of the United States, or his delegate.

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State.

Paragraph (10) provides that the term "State" means the several States of the United States and the District of Columbia.

Bureau of the Census.

Paragraph (11) provides that the term "Bureau of the Census" means the Bureau of the Census of the Department of Commerce.

Taxable income.

Paragraph (12) provides that the term "taxable income" means taxable income as defined by the internal revenue laws of the United States.

Units of government.

Paragraph (13) provides that the term "units of government" means all units of local government (including independent school districts and special districts) as defined by the Bureau of the Census.

Major Municipality.

Paragraph (14) provides that the term "major municipality" means any municipality with a population of more than 2,500 as reported by the Bureau of the Census.

Major Township.

Paragraph (15) provides that the term "major township" means any township with a population of more than 2,500 as reported by the Bureau of the Census if its employment ratio is not less than one-half of the average employment ratio for all major municipalities in such State.

Employment ratio.

Paragraph (16) provides that the term "employment ratio" means a fraction the numerator of which is the total number of employees of any major municipality or major township and the denominator of which is the population of such governmental unit.

(b) Changes and modifications in definitions.--Subsection (b) of section 201 provides that the definitions in subsection (a) shall be based on the latest published reports available and the internal revenue laws in effect on the date of enactment. The data used in applying these definitions shall be based on the latest published data which are referable to the same point or period in time. The Secretary may, by regulation, change or otherwise modify the definitions in subsection (a) in order to reflect any change or modification thereof made subsequent to such date by the Bureau of the Census, or by a revision of the internal revenue laws.

SECTION 301--REVENUE SHARING APPROPRIATION

(a) Appropriation.--Section 301 provides that for each fiscal year beginning on or after July 1, 1971, there shall be appropriated an amount equal to the percentages specified in subsection (b) multiplied by taxable income reported on Federal individual income returns for the calendar year for which the latest published statistical data are available from the Department of the Treasury at the beginning of such fiscal year.

(b) Subsection (b) provides that for the fiscal year beginning July 1, 1971, the applicable percentage is 0.96 and that it will be 1.3 percent for each fiscal year thereafter.

(c) Fiscal year limitation.--Subsection (c) provides that amounts appropriated pursuant to this Act shall remain available without fiscal year limitation for the expenditures authorized by this Act.

SECTION 401--PAYMENTS TO STATES

(a) In general.--Subsection (a) provides that for any fiscal year each State is entitled to an amount, determined by the Secretary, equal to the amount appropriated for such year pursuant to section 301 plus any undistributed amount of the prior year's incentive allocation (less 10 percent of the sum of such amounts) multiplied by the factor for such State.

(b) Incentive payment.--Subsection (b) provides that any State which together with its local governments adopts an alternative formula for the distribution of funds among the State and its local governments shall receive an amount equal to the 10 percent incentive allocation multiplied by the factor for such State.

(c) State factor.--Paragraphs 1 and 2 of subsection (c) provide that each State's factor shall be obtained by (1) multiplying such State's population by its revenue effort, and (2) dividing the product obtained in paragraph 1 by the sum of such products for all States.

(d) Revenue effort.--Subsection (d) provides that the revenue effort of each State for any fiscal year is obtained by dividing the total general revenue derived by such State and all of its units of government from their own resources by the total personal income for such State.

(e) Payments.--Subsection (e) provides that the payments determined under subsection (a) of this section shall be paid by the Secretary to the State at such times as the Secretary may determine during any fiscal year, but not less often than once each calendar

year quarter.

(f) District of Columbia payment.--Subsection (f) provides that the District of Columbia will receive the incentive payment notwithstanding the provisions of section 501(c).

(g) Final and conclusive determinations.--Subsection (g) provides that all determinations by the Secretary under sections 301 and 401 shall be final and conclusive.

SECTION 501--PAYMENTS BY STATES TO LOCAL GOVERNMENTS

(a) Computation of pass-through amount.--Subsection (a) of section 501 provides that the local governments of each State are entitled to an amount equal to the payment to such State pursuant to section 401 multiplied by a local distribution factor computed on the basis of the latest data available from the Department of Commerce, referable to the same point or period of time.

Numerator.

The numerator of the local distribution factor is the total general revenue derived by all units of governments in such State from their own resources.

Denominator.

The denominator of the distribution fraction is the total general revenue derived by such State and all of its units of government from their own resources.

(b) Payment to each local government.--Subsection (b) provides that each State shall pay to each local government an amount equal to the amount determined under subsection (a) of section 501 multiplied by the ratio of such local government's general revenue from its own

resources to the general revenue of all local governments in such State from their own resources.

(c) Alternative distribution formula.--Subsection (c) of section 501 provides that the Secretary shall accept an alternative formula for the distribution of funds, when filed by the State, provided such formula is approved by the State and by its general-purpose local governments.

Approval.

(1) State.--Paragraph (1) of subsection (c) provides that the alternative formula must be approved by the State in the same manner as authorized in such State's constitution for the enactment of its own laws.

(2) General-purpose local governments.--Paragraph (2) of subsection (c) provides that the alternative formula must be approved by a formal resolution by more than one-half of the governing bodies of each of the following classes of government in such State: (a) major municipalities, (b) counties, and (c) major townships. In each such class of government, approval must be by governing bodies representing a majority of the population in such class.

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Filing.

The alternative formula must be filed not later than 90 days preceding the first calendar year quarter to which it would be applicable.

Period of effectiveness.

The provisions of the formula are effective for the period provided in such alternative formula or for a 5-year period, whichever is shorter.

Modification or termination of formula.

The alternative formula may be modified or terminated if such modification or termination is approved by the State and its local governments in the same manner as provided for adopting such formula.

(d) Maintenance of existing payments.--Subsection (d) of section 501 provides that, except when an alternative formula is adopted pursuant to section 501(c), a State's aggregate payments to all of its local governments for such State's fiscal year (from all sources other than amounts received under this Act) shall be an amount which represents not less than the average proportion of such State's general revenue received by its local governments for the three fiscal years of such State next preceding the date of enactment of this Act. A State may show to the satisfaction of the Secretary that it should not be required to meet this maintenance standard where there has been a transfer from local governments to the State of financial responsibility for direct support of facilities or services.

SECTION 601--QUALIFICATIONS

In general.--Section 601 provides that participation by any State in this Act is a waiver by any such State of its immunity from suit by its local governments pursuant to section 801. The Governor must give the Secretary such other assurances as he may require that the State and its local governments will use and account for such revenue sharing funds in accordance with this Act.

Governmental Purposes.

Subsection (a) provides that payments received pursuant to this Act shall be used for a State or local government's governmental purposes.

Accounting and disbursement.

Subsection (b) provides that a State (and its local governments) shall use procedures necessary to assure property accounting for payments received under this Act and proper disbursement of amounts to which the local governments are entitled.

Compliance.

Subsection (c) provides that a State and its local governments must provide the Secretary, on reasonable notice, access to, and the right to examine, any book, document, paper or record that he may reasonably require for the purpose of reviewing compliance with this Act.

Reports.

Subsection (d) provides that a State and its local governments shall make such reports to the Secretary as he may reasonably require, including any computations made pursuant to section 501.

SECTION 701--POWERS OF THE SECRETARY

(a) Regulations.-- Subsection (a) of section 701 provides that the Secretary is authorized to prescribe reasonable rules and regulations for carrying out the provisions of this Act and to request from any Federal agency statistical data, reports and such other information as he may deem necessary for the purpose of carrying out his functions under this Act.

(b) Failure of Compliance by State Government.

In general. Subsection (b) of section 701 provides that if, after giving reasonable notice and an opportunity for a hearing, the Secretary determines that a State has failed to comply with any provision of the Act (other than section 1101) or any rule or regulation issued pursuant thereto, he shall proceed as specified in this section.

Referral.

The Secretary may refer the matter to the Attorney General with a recommendation that appropriate action be taken.

Notification.

The Secretary may notify the Governor that if the State fails to take corrective action within 60 days from the date of a notification that it has failed to comply, further payments to such State in excess of the amounts to which the local

governments of such State are entitled under section 501 will be withheld for the remainder of the fiscal year and for any subsequent fiscal year, until such time as the Secretary is satisfied that appropriate corrective action has been taken and that there will no longer be any failure to comply. Until he is satisfied, the Secretary shall make no further payments of such amounts.

Cancellation of payments.

Section 701 also provides that if a State fails to comply for a period of six months after the expiration of a 60-day notice that its payments will be withheld, the Secretary shall cancel any payment withheld pursuant to subsection (b) for the current and for any subsequent fiscal year.

Reapportionment of payments. The Secretary shall reapportion any cancelled payments to all other States then entitled to receive payments under section 401 of this Act, in proportion to the original installments paid to such States for the fiscal year to which such cancelled payments pertain. Amounts redistributed to States pursuant to section 701 are considered payments made pursuant to section 401.

(c) Payments to local governments. Subsection (c) of section 701 provides that if payments to a State are withheld or cancelled pursuant to this section, the Secretary shall continue to pay to such State the amount to which the local governments of such State are entitled under section 501 (computed as if the payment to such State had been made) and such State shall continue to distribute such amount among its local governments.

(d) Power of the Attorney General. Subsection (d) provides that when a violation is referred to the Attorney General under section 701(b), he may bring a civil action in any appropriate United States district court for such relief as may be appropriate, including injunctive relief.

(e) Failure of compliance by local government.

In general.--Subsection (e) of section 701 provides that the Governor shall be responsible for determining that local governments within his State have complied with the requirements of this Act (other than section 1101) and the rules and regulations issued pursuant thereto.

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Notice of failure of compliance. Subsection (e) also provides that if after giving reasonable notice and an opportunity for a hearing to the chief executive officer of a local government, a Governor determines that a local government within his State has failed to comply, he shall notify such local government that if it fails to take corrective action within 60 days from the date of such notification, further payments to such local government will be withheld for the remainder of the fiscal year and for any subsequent fiscal year until such time as he is satisfied that appropriate corrective action has been taken.

Notification to Secretary. The Governor shall notify the Secretary of his action.

(g) Cancellation of payments.--Subsection (f) provides that if a local government fails to comply for a period of six months after the expiration of the 60-day notice, the Governor shall cancel any payments withheld for the current and for any subsequent fiscal year.

Reapportionment. The Governor shall reapportion and pay any cancelled payment to all other local governments of such State then entitled to receive payments pursuant to section 501, in proportion to the original payments made to such local governments for the fiscal year to which the cancelled payments pertain.

SECTION 801.--JUDICIAL REVIEW

(a) Filing of a petition for review. Subsection (a) of section 801 provides that any State or local government which receives a 60-day notice under section 701 pursuant to a determination that payments to it will be withheld may, within 60 days after receiving such notice, file with the United States Court of Appeals for the circuit in which such State or local government is located, or in the United States Court of Appeals for the District of Columbia, a petition for review of the Secretary's action. A copy of the petition shall be transmitted to the Secretary and the Attorney General.

(b) Objections to Secretary's action.--Subsection (b) of section 801 provides that no objection to the action of the Secretary shall be considered by the Court unless such objection has been urged before the Secretary.

(c) Jurisdiction of Court.-- Subsection (c) of section 801 provides that the Court may affirm or modify the Secretary's action, or set it aside, in whole or in part.

Findings of fact.

The findings of fact by the Secretary, if supported by substantial evidence, shall be conclusive. If any finding is not supported by substantial evidence, the Court may remand the case to the Secretary to take further evidence, and the Secretary may thereupon make new findings of fact and may modify his previous actions.

(d) Review.--Subsection (d) of section 801 provides that the judgment of the Court shall be subject to review by the Supreme Court of the United States upon certiorari or certification, as provided in section 1254 of Title 28 of the United States Code.

(e) Cancellation of Payments.--Subsection (e) of section 801 provides that, in the event that judicial proceedings are instituted pursuant to this section, the Secretary shall, after the expiration of the six months period provided in section 701 or the point at which any judicial decision becomes final, whichever is later, cancel, reapportion, and pay any payments withheld pursuant to section 701 for the current and any subsequent fiscal year.

(f) The term "Secretary".--Subsection (f) of section 801 provides that, for the purposes of section 801, the term "Secretary" means the Secretary of the Treasury, or the Governor of a State, whichever is appropriate.

SECTION 901.--REPORT BY THE SECRETARY

In general.--Section 901 provides that the Secretary of the Treasury shall report to the President of the United States and the Congress, as soon as is practicable after the end of the fiscal year, on the operation of this Act during the preceding fiscal year.

SECTION 1001.--ADMINISTRATIVE EXPENSES

In general.--Section 1001 authorizes an appropriation for general administrative expenses required by this Act.

SECTION 1101. -- NONDISCRIMINATION PROVISIONS

(a) In general. Subsection (a) of section 1101 provides that no person shall be excluded from participation in, be denied the benefits of, or be subjected to discrimination on the basis of race, color or national origin under any program or activity funded in whole or in part with general revenue sharing funds.

(b)(1) Failure of Compliance by State

When the Secretary determines that a State has failed to comply with this section, he shall attempt to secure compliance by voluntary means.

If the Secretary determines that compliance cannot be secured by voluntary means, he may -- (1) refer the matter to the Attorney General with a recommendation that appropriate civil action be instituted, (2) exercise the powers and functions provided by Title VI of the Civil Rights Act of 1964 (42 U.S.C. §2000d), or (3) take any other action as may be provided by law.

(2) Failure of compliance by local government.

When the Secretary determines that a local government has failed to comply with this section, he shall notify the Governor of the State in which the local government is located that the local government is in violation of this section and he shall request the Governor to secure compliance. If the State is unable or refuses to secure compliance, the Secretary may--(1) refer the

matter to the Attorney General with a recommendation that appropriate action be instituted, (2) exercise the powers and functions provided by Title VI of the Civil Rights Act of 1964 (42 U.S.C. §2000d), or (3) take such other action as may be provided by law.

(d) Power of the Attorney General.

When a violation is referred to the Attorney General or whenever he has reason to believe that a State or local government is engaged in a pattern or practice in violation of provisions of this section, he may bring a civil action in any appropriate United States district court for such relief as may be appropriate, including injunctive relief.

SECTION 1201. -- EFFECTIVE DATE.

The effective date of this Act shall be the date of enactment. The first payment shall be for the period beginning October 1, 1971.

Department of the TREASURY

NGTON, D.C. 20220 TELEPHONE W04-2041

NEWS

FOR IMMEDIATE RELEASE February 10, 1971

COMMISSIONER THROWER RECEIVES TREASURY'S
ALEXANDER HAMILTON AWARD

Treasury Secretary David M. Kennedy today awarded IRS Commissioner Randolph W. Thrower the Alexander Hamilton Award, Treasury's highest service award. It was awarded for distinguished leadership.

The presentation took place in Commissioner Thrower's office at the Internal Revenue Service. Mr. Thrower, who is returning to his law practice in Atlanta, Georgia, will leave at the end of February. A successor has not yet been named.

In a letter dated January 26, 1971, President Nixon told Mr. Thrower that his "exceptionally dedicated service .... merits the gratitude of all our fellow citizens."

Mr. Thrower became IRS Commissioner on April 1, 1969.

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K-581

Department of the TREASURY

NGTON, D.C. 20220 TELEPHONE W04-2041

NEWS

MEMORANDUM TO CORRESPONDENTS: February 10, 1971

The attached legislation on Environmental Financing Authority and letter of transmittal were sent today to the President of the Senate. A similar letter was sent to the Speaker of the House.

Attachments

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

FEB 9 1971

ar Mr. President:

There is transmitted herewith a proposed bill, "To establish Environmental Financing Authority to assist in the financing waste treatment facilities, and for other purposes."

In his Budget Message to Congress, the President stated that egislation is again proposed to create the Environmental Financ-g Authority, which will assist communities that have difficulty borrowing at reasonable rates to meet their share of the cost water pollution control facilities."

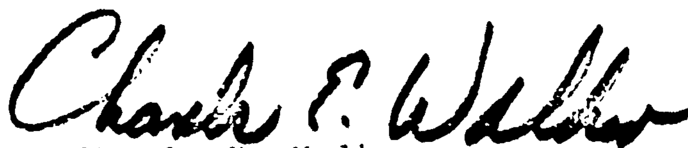
The proposed Authority would be authorized to purchase obli-tions issued by State or local public bodies to finance the n-Federal share of the cost of waste treatment construction pro-cts eligible for Federal financial assistance under the Federal ter Pollution Control Act. No obligation would be purchased by e Authority unless the public body is unable to obtain on reason-le terms sufficient credit elsewhere to finance its needs. The thority would be authorized to issue its own securities in the pital market to finance its purchases of State and local obligations.

To provide initial capital for the Authority, the Secretary the Treasury would be authorized to advance up to $100 million the Authority. In addition, the Secretary of the Treasury would authorized and directed to make annual payments to the Authority amounts necessary to cover the difference between the interest ts on debt issued by the Authority and the interest receipts om State and local governments on the obligations purchased.

With the proposed Authority in operation, no municipality ould be prevented from participating in the Federal waste treat-t assistance program by its inability to finance on reasonable ms its share of the program cost.

The Department has been advised by the Office of Management Budget that enactment of the proposed legislation would be in ord with the program of the President.

Sincerely yours,



Charls E. Walker
Acting Secretary

Honorable
ro T. Agnew
sident of the Senate
ted States Senate
hington, D. C. 20510

losure

A BILL

To establish an Environmental Financing Authority to assist in the financing of waste treatment facilities, and for other purposes.

Be it enacted by the Senate and House of Representatives the United States of America in Congress assembled, That s Act may be cited as the "Environmental Financing Act of 1971".

CREATION OF AUTHORITY

SEC. 2. There is hereby created a body corporate to be known the Environmental Financing Authority, which shall have succession il dissolved by Act of Congress. The Authority shall be subject the general supervision and direction of the Secretary of the asury. The Authority shall be an instrumentality of the United tes Government and shall maintain such offices as may be necessary appropriate in the conduct of its business.

PURPOSE

SEC. 3. The purpose of this Act is to assure that inability borrow necessary funds on reasonable terms does not prevent any te or local public body from carrying out any project for construc- n of waste treatment works determined eligible for assistance suant to section 5 of this Act.

BOARD OF DIRECTORS

SEC. 4. (a) The Authority shall have a Board of Directors sisting of five persons, one of whom shall be the Secretary of Treasury or his designee as Chairman of the Board, and four whom shall be appointed by the President from among the officers

or employees of the Authority or of any department or agency of the United States Government.

(b) The Board of Directors shall meet at the call of its Chairman. The Board shall determine the general policies which shall govern the operations of the Authority. The Chairman of the Board shall select and effect the appointment of qualified persons to fill the offices as may be provided for in the bylaws, with such executive functions, powers, and duties as may be prescribed by the bylaws or by the Board of Directors, and such persons shall be the executive officers of the Authority and shall discharge all such executive functions, powers, and duties. The members of the Board, as such, shall not receive compensation for their services.

FUNCTIONS

SEC. 5. (a) The Authority is authorized to make commitments to purchase and to purchase on terms and conditions determined by the Authority, any obligation or participation therein which is issued by a State or local public body to finance the non-Federal share of the cost of any project for the construction of waste treatment works which the Administrator of the Environmental Protection Agency has determined to be eligible for Federal financial assistance under the Federal Water Pollution Control Act (33 U.S.C. 466).

(b) No commitment shall be entered into, and no purchase shall be made, unless the Administrator of the Environmental Protection Agency (1) has certified that the public body is

ıable to obtain on reasonable terms sufficient credit to finance
:s actual needs; (2) has approved the project as eligible under
ıe Federal Water Pollution Control Act (33 U.S.C. 466); and (3)
ıs agreed to guarantee timely payment of principal and interest
ı the obligation. The Administrator is authorized to guarantee
ıch timely payments and to issue regulations as he deems necessary
d proper to protect such guarantees. Appropriations are hereby
thorized to be made to the Administrator in such sums as are
cessary to make payments under such guarantees, and such payments
e authorized to be made from such appropriations or from any
her available funds.

(c) No purchase shall be made of obligations issued to
nance projects, the permanent financing of which occurred prior
the enactment of this Act.

(d) Any purchase by the Authority shall be upon such terms
d conditions as to yield a return at a rate determined by the
cretary of the Treasury taking into consideration (i) the current
erage yield on outstanding marketable obligations of the United
ates of comparable maturity or in its stead whenever the Authority
s sufficient of its own long-term obligations outstanding, the
rent average yield on outstanding obligations of the Authority
comparable maturity; and (ii) the market yields on municipal
ıds.

(e) The Authority is authorized to charge fees for its
mitments and other services adequate to cover all expenses
to provide for the accumulation of reasonable contingency

reserves and such fees shall be included in the aggregate project costs.

INITIAL CAPITAL

SEC. 6. To provide initial capital to the Authority, the Secretary of the Treasury is authorized to advance the funds necessary for this purpose. Each such advance shall be upon such terms and conditions as to yield a return at a rate not less than a rate determined by the Secretary of the Treasury taking into consideration the current average yield on outstanding marketable obligations of the United States of comparable maturities. Interest payments on such advances may be deferred, at the discretion of the Secretary, but any such deferred payments shall themselves bear interest at the rate specified in this section. There is authorized to be appropriated not to exceed $100,000,000, which shall be available for the purposes of this section without fiscal year limitation.

OBLIGATIONS OF THE AUTHORITY

SEC. 7. (a) The Authority is authorized, with the approval of the Secretary of the Treasury, to issue and have outstanding obligations having such maturities and bearing such rate or rates of interest as may be determined by the Authority. Such obligations may be redeemable at the option of the Authority before maturity in such manner as may be stipulated therein.

(b) As authorized in appropriation Acts, and such authorization may be without fiscal year limitation, the Secretary of the Treasury may in his discretion purchase or agree to purchase any obligation

ıed pursuant to subsection (a) of this section, and for such
ıose the Secretary of the Treasury is authorized to use as
ıblic debt transaction the proceeds of the sale of any securities
ıafter issued under the Second Liberty Bond Act, as now or
ıafter in force, and the purposes for which securities may be
ıed under the Second Liberty Bond Act as now or hereafter in
ıe, are extended to include such purchases. Each purchase of
gations by the Secretary of the Treasury under this subsection
.l be upon such terms and conditions as to yield a return at
.te not less than a rate determined by the Secretary of the
.sury taking into consideration the current average yield on
tanding marketable obligations of the United States of comparable
rities. The Secretary of the Treasury may sell, upon such
s and conditions and at such price or prices as he shall
rmine, any of the obligations acquired by him under this
ection. All purchases, and sales by the Secretary of the
sury of such obligations under this subsection shall be treated
ublic debt transactions of the United States.

FEDERAL PAYMENT TO THE AUTHORITY

SEC. 8. The Secretary of the Treasury is authorized and
cted to make annual payments to the Authority in such amounts
re necessary to equal the amount by which the dollar amount
ıterest expense accrued by the Authority on account of its
ȝations exceeds the dollar amount of interest income accrued
ıe Authority on account of obligations purchased by it
ıant to section 5 of this Act.

GENERAL POWERS

SEC. 9. The Authority shall have power-

(a) to sue and be sued, complain and defend, in its corporate name;

(b) to adopt, alter, and use a corporate seal, which shall be judicially noticed;

(c) to adopt, amend, and repeal bylaws, rules, and regulations as may be necessary for the conduct of its business;

(d) to conduct its business, carry on its operations, and have offices and exercise the powers granted by this Act in any State without regard to any qualification or similar statute in any State;

(e) to lease, purchase, or otherwise acquire, own, hold, improve, use, or otherwise deal in and with any property, real, personal, or mixed, or any interest therein, wherever situated;

(f) to accept gifts or donations of services, or of property, real, personal, or mixed, tangible or intangible, in aid of any of the purposes of the Authority;

(g) to sell, convey, mortgage, pledge, lease, exchange, and otherwise dispose of its property and assets;

(h) to appoint such officers, attorneys, employees, and agents as may be required, to define their duties, to fix and to pay such compensation for their services as may be determined, subject to the civil service and classification laws, to require bonds for them and pay the premium

thereof; and

(i) to enter into contracts, to execute instruments, to incur liabilities, and to do all things as are necessary or incidental to the proper management of its affairs and the proper conduct of its business.

TAX EXEMPTION

SEC. 10. The Authority, its property, its franchise, capi- reserves, surplus, security holdings, and other funds, and income shall be exempt from all taxation now or hereafter osed by the United States or by any State or local taxing hority; except that (1) any real property and any tangible sonal property of the Authority shall be subject to Federal, te, and local taxation to the same extent according to its ue as other such property is taxed, and (2) any and all obligations ued by the Authority shall be subject both as to principal and erest to Federal,State, and local taxation to the same extent the obligations of private corporations are taxed.

OBLIGATION AS LAWFUL INVESTMENTS, ACCEPTANCE AS SECURITY

SEC. 11. All obligations issued by the Authority shall be ful investments, and may be accepted as security for all uciary, trust, and public funds, the investment or deposit which shall be under authority or control of the United States of any officer or officers thereof. All obligations issued the Authority pursuant to this Act shall be deemed to be

exempt securities within the meaning of laws administered by the Securities and Exchange Commission, to the same extent as securities which are issued by the United States.

PREPARATION OF OBLIGATIONS

SEC. 12. In order to furnish obligations for delivery by the Authority, the Secretary of the Treasury is authorized to prepare such obligations in such form as the Authority may approve, such obligations when prepared to be held in the Treasury subject to delivery upon order by the Authority. The engraved plates, dies, bed pieces, and so forth, executed in connection therewith shall remain in the custody of the Secretary of the Treasury. The Authority shall reimburse the Secretary of the Treasury for any expenditures made in the preparation, custody, and delivery of such obligations.

ANNUAL REPORT

SEC. 13. The Authority shall, as soon as practicable after the end of each fiscal year, transmit to the President and the Congress an annual report of its operations and activities.

OBLIGATIONS ELIGIBLE FOR PURCHASE BY NATIONAL BANKS

SEC. 14. The sixth sentence of the seventh paragraph of section 5136 of the Revised Statutes, as amended (12 U.S.C. 24), is amended by inserting "or obligations of the Environmental Financing Authority" immediately after "or obligations, participati or other instruments of or issued by the Federal National Mortgage Association or the Government National Mortgage Association."

GOVERNMENT CORPORATION CONTROL ACT

SEC. 15. The budget and audit provisions of the Government Corporation Control Act (31 U.S.C. 846) shall be applicable to the Environmental Financing Authority in the same manner as they are applied to the wholly owned Government corporations.

PERMANENT APPROPRIATION FOR FEDERAL PAYMENT TO AUTHORITY

SEC. 16. Section 3689 of the Revised Statutes, as amended 31 U.S.C. 711), is further amended by adding a new paragraph ollowing the last paragraph appropriating moneys for the purposes under the Treasury Department to read as follows:

"Payment to the Environmental Financing Authority: or payment to the Environmental Financing Authority under ection 8 of the Environmental Financing Act of 1971."

SEPARABILITY

SEC. 17. If any provision of this Act or the application hereof to any person or circumstance, is held invalid, the alidity of the remainder of the Act, and the application of uch provisions to other persons or circumstances, shall not e affected.

FOR RELEASE UPON DELIVERY
(EXPECTED AT 8:45 P.M., EST)
WEDNESDAY, FEBRUARY 10, 1971

EXCERPTS FROM AN ADDRESS BY
SECRETARY-DESIGNATE JOHN B. CONNALLY
BEFORE
THE BUSINESS COUNCIL, WASHINGTON, D. C.
FEBRUARY 10, 1971

Governor Connally devoted his remarks to revenue sharing and to governmental reorganization.

Highpoints of his discussion of revenue sharing were:

It would provide immediate help in relieving the fiscal crisis of state and local governments and reduce the pressure for increasing local property taxes.

The proposal would put the money where the need is, with state and local governments, and places the funds where government can be most effective and responsive to needs because:

-- Money and power are moved closer to the people,

-- Red tape and duplicating programs can be eliminated,

-- It recognizes that the conditions in each city or state are different,

-- And it combines resources and responsibility at the appropriate state, local or federal levels.

General revenue sharing would allocate $5 billion to state and local governments the first full year. This amount is at 1.3 percent of the federal personal income tax base and would grow yearly as the tax base increases. Historically the base increases about 7 percent to 9 percent a year.

Special revenue sharing would reallocate $10 billion from narrow categorical grants. This plus $1 billion new money brings the special sharing proposal to more than $11 billion.

Special sharing would reduce the Federal bureaucracy, eliminate matching requirements and give state and local governments full discretion over implementation of the broad objectives of urban development, rural development, education, manpower training, law enforcement and transportation.

He said revenue sharing is superior to suggested alternatives.

Federalization of welfare costs would penalize 39 states which would get less federal money than under revenue sharing.

Federal tax credits would provide no immediate help and would create an awkward federal-state problem. Thirteen states have no income tax and a federal tax credit probably would require state legislative action for full implementation. It would provide no sure help for the needy cities and would help the wealthiest states most.

More categorical grants would add to existing problems by further centralizing decision-making in Washington, continuing duplicatory programs and distorting state and local priorities to conform to Washington priorities.

Governor Connally advocated a complete overhaul of the Federal executive department and stressed the following:

Government should be organized around the major purposes of that government.

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These include: fostering human resources, improving the quality of city and rural communities as places for people to work and live, developing and strengthening the economy in its domestic and international aspects and formulating policies for managing the nation's land and other natural resources in the enlightened best interest of the present and future generations.

Growth in size of the federal establishment is not the problem. Nor is the problem the purposes of government. The problem is the way government has been organized in a hodge-podge of overlapping departments and agencies.

The present structure makes it difficult for local governments to deal with the federal government, it diffuses accountability of officials to the people and it focuses on processes rather than results.

The broad proposals for government reorganization put forth in the President's state of the union message attack boldly the major problems instead of resorting to piece-meal patches as has been past participle.

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Department of the TREASURY

NGTON, D.C. 20220 TELEPHONE W04-2041

NEWS

OR IMMEDIATE RELEASE February 11, 1971

TREASURY OFFERS $1.2 BILLION STRIP OF WEEKLY BILLS

The Treasury Department, by this public notice, invites tenders for additional mounts of six series of Treasury bills to the aggregate amount of $1,200,000,000 r thereabouts, for cash. The additional bills will be issued February 26, 1971, ill be in the amounts, and will be in addition to the bills originally issued and aturing, as follows:

nt of tional sue	Original Issue Dates 1970	Maturity Dates 1971	CUSIP Nos.	Days from February 26, 1971 to Maturity	Amount Currently Outstanding (in millions)
,000,000	November 27	May 27	912793 KK1	90	$ 1,400
,000,000	December 3	June 3	912793 KL9	97	1,399
,000,000	December 10	June 10	912793 KM7	104	1,401
,000,000	December 17	June 17	912793 KN5	111	1,400
,000,000	December 24	June 24	912793 KP0	118	1,404
,000,000	December 31	July 1	912793 KQ8	125	1,402
,000,000			Average....	107.5	

dditional and original bills will be freely interchangeable.

Each tender submitted must be in the minimum amount of $60,000 . Tenders $60,000 must be in multiples of $30,000 . One-sixth of the amount tendered be applied to each of the above series of bills.

The bills offered hereunder will be issued on a discount basis under competitive oncompetitive bidding as hereinafter provided, and at maturity their face amount be payable without interest. They will be issued in bearer form only, and in inations of $10,000, $15,000, $50,000, $100,000, $500,000 and $1,000,000 (maturity).

Tenders will be received at Federal Reserve Banks and Branches up to the closing one-thirty p.m., Eastern Standard time, Thursday, February 18, 1971. Tenders not be received at the Treasury Department, Washington. In the case of competitive rs the price offered must be expressed on the basis of 100, with not more than decimals, e.g., 99.925. Fractions may not be used. A single price must be ted for each tender. It is urged that tenders be made on the printed forms orwarded in the special envelopes which will be supplied by Federal Reserve Banks nches on application therefor.

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

All bidders are required to agree not to purchase or to sell, or to make any agreements with respect to the purchase or sale or other disposition of any bills of these additional issues at a specific rate or price, until after one-thirty p.m., Eastern Standard time, Thursday, February 18, 1971.

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 $240,000 or less (in amounts as set forth in the second paragraph) 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 immediate available funds on February 26, 1971. 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 exclude 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. Purchasers of a strip of the bills offered hereunder should, for tax purposes, take such bills on to their books on the basis of their purchase price prorated to each of the six outstanding issues using as a basis for proration the closing market prices for each of the issues on February 26, 1971. (Federal Reserve Banks will have available a list of these market prices, based on the mean between the bid and asked quotations furnished by the Federal Reserve Bank of New York.)

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

Department of the TREASURY NEWS

NGTON, D.C. 20220 TELEPHONE W04-2041

'ION: FINANCIAL EDITOR

LEASE 6:30 P.M.,

ay, February 11, 1971.

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 November 19,1970 , and her series to be dated February 18, 1971 , which were offered on February 5, 1971, pened at the Federal Reserve Banks today. Tenders were invited for $2,000,000,000, 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 May 20, 1971		:	182-day Treasury bills maturing August 19, 1971	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
igh	99.090	3.600%	:	98.159	3.642%
ow	99.072	3.671%	:	98.133	3.693%
verage	99.080	3.640% 1/	:	98.140	.679% 1/

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

TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

ict	Applied For	Accepted	:	Applied For	Accepted
n	$ 26,265,000	$ 16,115,000	:	$ 12,395,000	$ 2,085,000
ork	2,388,065,000	1,476,965,000	:	2,201,180,000	1,182,380,000
delphia	46,385,000	16,935,000	:	19,905,000	4,570,000
land	36,495,000	31,715,000	:	40,900,000	20,680,000
ond	11,140,000	11,140,000	:	14,610,000	9,285,000
ta	44,900,000	36,900,000	:	32,865,000	15,545,000
go	189,815,000	171,365,000	:	159,015,000	21,015,000
ouis	49,690,000	37,160,000	:	33,020,000	14,220,000
apolis	35,815,000	35,815,000	:	45,370,000	30,370,000
s City	27,405,000	25,825,000	:	12,705,000	7,605,000
s	35,500,000	19,610,000	:	29,105,000	7,105,000
rancisco	168,070,000	120,970,000	:	142,585,000	85,235,000
TOTALS	$3,059,545,000	$2,000,515,000 a/		$2,743,655,000	$1,400,095,000 b/

ides $201,395,000 noncompetitive tenders accepted at the average price of 99.080
ides $ 83,385,000 noncompetitive tenders accepted at the average price of 98.140
: rates are on a bank discount basis. The equivalent coupon issue yields are
for the 91-day bills, and 3.80% for the 182-day bills.

Department of the TREASURY

NGTON, D.C. 20220 TELEPHONE W04-2041

NEWS

FOR IMMEDIATE RELEASE February 12, 1971

SIDNEY S. SOKOL NAMED
DEPUTY FISCAL ASSISTANT SECRETARY OF THE TREASURY

Secretary of the Treasury John B. Connally today announced approval of the appointment of Sidney S. Sokol, a Treasury career official, as Deputy Fiscal Assistant Secretary of the Treasury, effective February 22, 1971. He succeeds Hampton A. Rabon, Jr., who retired on February 6.

Mr. Sokol, as Commissioner, Bureau of Accounts, has served under Fiscal Assistant Secretary John K. Carlock since February 1, 1965. He was Deputy Commissioner of Accounts beginning in January 1961 and has been in the Federal career service since 1935, all with the Department of the Treasury except for four years with the Department of the Army.

Mr. Sokol is a native of New York City and a graduate of the College of the City of New York where he received the BS and MBA degrees and also did graduate work at Columbia University. He is also a Certified Public Accountant in New York State.

Mr. Sokol has been the recipient of the Department of the Army's Meritorious Civilian Service Award and the Treasury's Meritorious Service and Exceptional Service Awards.

Mr. and Mrs. Sokol reside at 623 Warfield Drive, Rockville, Md. They have two daughters and one granddaughter, Jennifer Kate, all of New York City.

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

IMMEDIATE RELEASE February 16, 1971

TREASURY'S WEEKLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders two series of Treasury bills to the aggregate amount of 300,000,000, or thereabouts, for cash and in exchange for Treasury ls maturing February 25, 1971, in the amount of $3,303,285,000, follows:

91-day bills (to maturity date) to be issued February 25, 1971, the amount of $1,900,000,000, or thereabouts, representing an itional amount of bills dated November 27, 1970, and to mature 27, 1971 (CUSIP No.912793 KK1) originally issued in amount of $1,400,490,000, the additional and original bills to be ely interchangeable.

182- day bills, for $1,400,000,000, or thereabouts, to be dated ruary 25, 1971, and to mature August 26, 1971 SIP No.912793 LF1).

The bills of both series will be issued on a discount basis under etitive and noncompetive bidding as hereinafter provided, and at irity 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 Standard e, Monday, February 22, 1971. 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 essed on the basis of 100, with not more than three decimals, , 99.925. Fractions may not be used. It is urged that tenders be on the printed forms and forwarded in the special envelopes which be supplied by Federal Reserve Banks or Branches on application efor.

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

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 decimal of accepted competitive bids for the respective issues. Settlement fo accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on February 25, 1971, in cash or other immediately available funds or in a like face amount Treasury bills maturing February 25, 1971. Cash and exchange tende 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 sol 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 pai for the bills, whether on original issue or on subsequent purchase, an 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 fr any Federal Reserve Bank or Branch.

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Department of the TREASURY

NGTON, D.C. 20220 TELEPHONE W04-2041

NEWS

IMMEDIATE RELEASE. February 16, 1971

REVISED FIGURES FOR FEBRUARY 15 REFUNDING

The Treasury said today that retabulation of subscriptions received in its ıt refunding indicate that $207 million more of the eligible issues were exchanged was announced January 29.

Of the $5.0 billion of securities held by the general public maturing uary 15, 1971, $4.2 billion were exchanged, leaving $0.8 billion, or 15.8% changed. The Federal Reserve Banks and Government accounts exchanged $0.3 ion of the $0.4 billion of these securities held by them. A total of $0.9 ion was paid off in cash.

In the prerefunding, $6.8 billion of the $14.5 billion of eligible issues by the general public and $4.8 billion of the $9.7 billion held by the ral Reserve Banks and Government accounts were exchanged.

The following is a summary of the exchanges (dollar amounts in millions):

ELIGIBLE FOR EXCHANGE		TO BE ISSUED		
Description	Amount	5-7/8% Notes 8/15/75	6-1/4% Notes 2/15/78	Total
By the general public				
5-3/8% notes 2/15/71	$ 2,285	$ 1,036	$ 963	$ 1,999
7-3/4% notes 2/15/71	2,728	1,022	1,198	2,220
Subtotal	5,013	2,058	2,161	4,219
PREREFUNDING				
2-1/2% bonds 3/15/71	1,011	314	464	778
5-3/8% notes 11/15/71	1,441	332	407	739
7-3/4% notes 11/15/71	3,101	289	531	820
3-7/8% bonds 11/15/71	2,230	818	704	1,522
4-3/4% notes 2/15/72	1,561	528	443	971
7-1/2% notes 2/15/72	3,131	390	303	693
4% bonds 2/15/72	2,021	632	648	1,280
Subtotal	14,496	3,303	3,500	6,803
Total	19,509	5,361	5,661	11,022

(OVER)

ELIGIBLE FOR EXCHANGE		TO BE ISSUED		
Description	Amount	5-7/8% Notes 8/15/75	6-1/4% Notes 2/15/78	Total
By Federal Reserve Banks and Government accounts				
5-3/8% notes 2/15/71	$ 224	$ 28	$ 129	$ 157
7-3/4% notes 2/15/71	196	1	127	128
Subtotal	420	29	256	285
PREREFUNDING				
2-1/2% bonds 3/15/71	208	0	170	170
5-3/8% notes 11/15/71	293	0	25	25
7-3/4% notes 11/15/71	7,642	2,146	1,948	4,094
3-7/8% bonds 11/15/71	530	73	77	150
4-3/4% notes 2/15/72	445	69	165	234
7-1/2% notes 2/15/72	244	0	0	0
4% bonds 2/15/72	323	2	81	83
Subtotal	9,685	2,290	2,466	4,756
Total	10,105	2,319	2,722	5,041

Statement by Former Secretaries of the Treasury:

"As men who have served as Secretary of the Treasury over a period of more than twenty years and in widely varying economic and financial circumstances, we join in supporting the request of Secretary Connally that the 4-1/4 percent interest rate ceiling on Treasury bonds be removed. This action is essential to continued orderly management of the Government debt. Failure to remove this outmoded ceiling, with the consequence of forcing disproportionate short-term financing, can become a disruptive influence in credit markets."

David M. Kennedy

Joseph W. Barr

Henry H. Fowler

Douglas Dillon

Robert B. Anderson

John W. Snyder

February 16, 1971

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

NEWS

FOR IMMEDIATE RELEASE February 17, 1971

TREASURY TO HIRE RECENT LAW GRADUATES

Samuel R. Pierce, Jr., General Counsel of the United States Treasury today announced the Department's intention to hire recent law school graduates to participate in a three-year honors program.

The lawyers, who must be in the top third of their class or members of law review, will have an opportunity to be trained in such Treasury agencies as the Internal Revenue Service, the Bureaus of Customs and Public Debt and the Office of the Comptroller of the Currency.

It is anticipated that at the end of the program, a certain number of the lawyers would remain in the Treasury in either a legal or administrative capacity. Employing some 800 lawyers, the Treasury Department has the Federal government's second largest legal division.

Announcements of this new program will be sent to accredited law schools throughout the country. Schools interested in the program should write to: Treasury Department, Office of the General Counsel, Washington,D.C. 20220.

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Department of the TREASURY

NGTON, D.C. 20220 TELEPHONE W04-2041

NEWS

MEDIATE RELEASE February 17, 1971

TREASURY'S MONTHLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders for
eries of Treasury bills to the aggregate amount of $1,700,000,000,
ereabouts, for cash and in exchange for Treasury bills
ing February 28,1971, in the amount of $1,700,107,000,
llows:

274-day bills (to maturity date) to be issued March 1, 1971,
e amount of $ 500,000,000, or thereabouts, representing an
ional amount of bills dated November 30,1970, and to mature
ber 30,1971 (CUSIP No.912793 KU9) originally issued in the
t of $1,200,505,000, the additional and original bills to be
y interchangeable.

366-day bills, for $ 1,200,000,000, or thereabouts, to be dated
ary 28, 1971, and to mature February 29, 1972
P No. 912793 LY0).

The bills of both series will be issued on a discount basis under
titive and noncompetitive bidding as hereinafter provided, and at
ity their face amount will be payable without interest. They will
sued in bearer form only, and in denominations of $10,000, $15,000,
00, $100,000, $500,000 and $1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up
e closing hour, one-thirty p.m., Eastern Standard
Tuesday, February 23, 1971. Tenders will not be received
e Treasury Department, Washington. Each tender must be for a
um of $10,000. Tenders over $10,000 must be in multiples of
0. In the case of competitive tenders the price offered must
pressed on the basis of 100, with not more than three decimals,
99.925. Fractions may not be used. (Notwithstanding the fact
the one-year bills will run for 366 days, the discount rate will
mputed on a bank discount basis of 360 days, as is currently the
ice on all issues of Treasury bills.) It is urged that tenders be
on the printed forms and forwarded in the special envelopes which
be supplied by Federal Reserve Banks or Branches on application
for.

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 trust company.

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Only those submitting competitive tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on March 1, 1971, in cash or other immediately available funds or in a like face amount of Treasury bills maturing February 28, 1971. 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 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.

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Department of the TREASURY NEWS

NGTON, D.C. 20220 TELEPHONE W04-2041

FOR RELEASE UPON DELIVERY,
EXPECTED AT ABOUT 10:00 A.M., EST

STATEMENT BY THE HONORABLE JOHN B. CONNALLY
SECRETARY OF THE TREASURY
BEFORE
THE HOUSE COMMITTEE ON WAYS AND MEANS
ON THE LIMIT ON THE PUBLIC DEBT AND THE 4-1/4 PERCENT
INTEREST RATE CEILING ON
WEDNESDAY, FEBRUARY 17, 1971, AT 10:00 A. M.

I am sure the members of this Committee are familiar with the general outline of the President's Budget. As you know, it anticipates, on the unified budgetary basis, a deficit of $18.6 billion in the current fiscal year and $11.6 billion in fiscal 1972.

These are very sizeable figures. As the economy expands and reaches full prosperity, it is vitally important that our deficits be reduced in size and eliminated. However, in existing economic circumstances, with too much unemployment and unused capacity, the anticipated deficits seem to me fully consistent with sound and prudent financial planning. Proposed expenditures have been kept within the revenue-generating capacity of our tax system at full employment levels of income. As we achieve that goal, a balance or surplus can and should be restored. In the meantime, our willingness to accept deficits, to the extent they reflect a sluggishness in the economy and thus in revenue collections, will help speed the desired expansion.

I firmly believe the anticipated deficits can be financed in a manner consistent with orderly expansion of the economy, and without building into the economy a renewed inflationary potential, provided the Treasury is armed with needed flexibility in shaping its financing program. Specifically, I request your Committee and the Congress act, as a matter of urgency, to provide us with essential financing leeway in two areas: first, an increase in the statutory debt limit now set at $395 billion, and, second, elimation of the 4-1/4 percent ceiling on interest paid on Treasury bonds.

The Debt Limit

You will recall that the present statutory debt limit was set by the Congress last June in the light of official projections of a unified budget deficit of only $1.3 billion. That projection turned out to be very wide of the mark. In addition to estimating error, the business slowdown has contributed to a short-fall in revenues of some $10 billion from the projection of last spring. A combination of increases in such "uncontrollable" items as social security and interest payments and higher appropriations by the Congress account for an $7 billion increase in estimated expenditures.

As a result of the larger deficit, our indebtedness is now running higher than anticipated, and the margin for contingencies provided under the present debt limit has already been pretty well exhausted. Present projections suggest that the debt will rise to within $1 billion of the present $395 billion limit late this month, before temporarily dropping again. By the second half of March, the debt will be bumping against the limit persistently, and we will have no alternative but to draw down our cash balances to abnormally low levels. The debt will rise further in April and reach a temporary peak in mid-June. (This trend is reflected in Table I, which assumes a constant $6 billion cash balance.)

Consequently, in a matter of weeks, failure to obtain a higher debt ceiling will force us to turn to uneconomic and costly expedients to maintain an orderly flow of expenditures in accordance with Congressional authorizations.

The margin for contingencies will be exhausted. For an indefinite period, the Treasury will have no room for meeting unexpected cash drains. A variety of contingencies -- a sizeable short-fall from revenue estimates, an unanticipated bunching of expenditures or tax refunds, disturbances in the mail -- could create most serious operating difficulties. As the Secretary of the Treasury, I could not contemplate operating prudently on that basis.

Consequently, I believe it essential that the Congress take action to lift the debt limit by the middle of March. I also believe that it would be appropriate at the same time to look further ahead and provide a limit adequate to meet the need for fiscal 1972.

In appraising the size of this need, I would point out that the present concept of the debt limit covers the aggregate of Treasury debt, including the debt held by the Federal trust funds and other agencies. During a period like the present, when the trust funds are in substantial surplus and thus acquiring Treasury debt, the necessary increase in the limit must be far in excess of the size of the deficit, measured on the unified budget basis, which includes the operations of the trust funds.

As the Budget document shows, the so-called Federal funds part of the unified budget -- which excludes the operations of the trust funds -- is now estimated to be in deficit by $25.5 billion for fiscal 1971. (Table III shows a reconciliation of the Unified and Federal Funds Budgets). The presently projected Fiscal 1971 Federal Funds deficit is $15 billion more than anticipated when the present limit was set. In addition, a deficit on the Federal funds basis of $23.1 billion is anticipated in fiscal 1972. Thus, for debt limit purposes, we must deal with some $38 billion of deficit beyond that provided for in the present limit.

The anticipated deficits are expected to bring the Federal debt subject to limit close to $420 billion at the end of fiscal 1972. Temporary seasonal requirements will lead to a substantially higher debt at certain periods during the late winter and spring of 1972. As you can see in Table II, with allowance for an average level of cash of some $6 billion, the debt would fluctuate between $425 billion and $430 billion at midmonth dates from March through May, reaching a peak of $431 billion on June 15th.

It has been the custom of this Committee to provide a margin for contingencies above these estimates of approximately $3 billion. In view of the fact that the peak debt will not be reached for some sixteen months, and in view of the uncertainties that must be associated with any projections that far ahead, I propose to the Committee that a new temporary debt limit be set at $435 billion for the period through June 30th, 1972.

In requesting this debt limit, I am conscious of the uncertainties that exist and are, indeed, an inescapable part of the budgetary process. While we are proposing only limited tax changes, revenues are sensitive to economic developments. The expenditure projections reflect the President's program, before the process of Congressional authorizations and appropriations.

I believe, however, that the President's Budget represents appropriate and desirable assumptions for planning purposes. I believe the limit I have proposed will provide the necessary leeway to assure flexible and responsible financing in foreseeable circumstances.

The 4-1/4 Percent Interest Rate Ceiling

Since 1918, the Treasury has financed within a general limitation that it may provide an interest rate of no more than 4-1/4 percent on Treasury bonds. That rate was chosen, as I understand it, simply because it was the rate necessary to sell bonds in the closing months of World War I. In practice, this ceiling now controls only the interest rate that the Treasury may place on securities maturing in more than seven years, since Treasury bills and certificates (instruments that mature within a year) and notes (instruments that may mature in one to seven years) can be sold without limitation as to interest rate.

For many years, the limitation of interest on Treasury bonds did not represent a serious impediment to Treasury financing. While long-term market yields for Treasury securities did move above 4-1/4 percent from time to time in the 1920's and in the late 1950's, these periods were of limited duration and, by and large, did not coincide with heavy Treasury borrowing requirements.

In the past five years, however, the situation has been
ery different. Because of the interest rate ceiling, the
'reasury has been unable to sell a security maturing in more
han seven years since mid-1965. The result has been a
ubstantial and serious piling up of the debt in the short-
erm area.

The results are reflected in a series of charts attached
o my statement. The average maturity of the debt has declined
luring this period from five years and nine months in June,
965, to three years and four months at the end of January
f this year (Chart 1). The volume of maturing notes and
onds that we need to refinance each year rose from 1965 to the
eginning of this year by more than half, or from $13.3 billion
o $22.9 billion (Chart 2). As a counterpart, the amount of
'reasury debt of more than seven years maturity outstanding
as declined precipitously, from $43-1/2 billion to
17-1/2 billion (see Chart 5).

As a simple matter of prudent financing, this is not a
ealthy situation. We are faced with large refundings,
uarter after quarter. Concentration of these financings in
limited sector of the market creates unnecessary congestion
nd limits our flexibility in arranging prior or subsequent
ash financings. While the absorptive capacity of the short-
erm market is normally large, in this uncertain world it is
ardly appropriate to test the limits of that capacity
nnecessarily. At best, we are vulnerable to any recurrence
f high rates and tight money; at worst, the heavy volume of
aturities can jeopardize our ability to finance in an orderly
anner.

I believe the present situation is equally bad as a
atter of broader economic policy. In 1969 and 1970, the
orced concentration on short-term financing helped aggravate
ompetitive pressures on thrift institutions and thus played
part in impairing the flow of funds into the housing
arkets. Over time, the build-up of short-term Treasury debt
ends to increase the liquidity of the economy in a manner
ot easily subject to control by the monetary authorities.
t, therefore, undermines the task of economic management and
articularly risks a refueling of inflationary pressures when
emand pressures are strong. The large financings imposed by
he present debt structure also complicate the task of the
ederal Reserve in carrying out its open market

operations or making policy changes at critical times because of the need to avoid disturbing the process of market reception or digestion of such large new issues by the Treasury.

The interest rate limitation on long-term bonds is sometimes defended as a device to achieve a saving in interest cost. However, recent experience provides ample illustration of the point that, in a period of inflation and heavy credit demands, a legislated ceiling rate on Treasury bonds cannot prevent yields from rising sharply throughout credit markets. Ceiling or not, the Treasury did need to finance in the market in heavy volume, and the concentration of that financing in the short-term area at times helped to push those rates well above prevailing yields for longer issues (Chart 6).

At this point, it seems clear that the sizeable volume of longer-term financing accomplished by the Treasury during the early 1960's will afford sizeable direct interest savings. In the absence of that long-term financing, the Treasury would have had to sell still more securities at the unprecedentedly high levels of recent years.

Happily, the entire structure of interest rates has declined sharply from the peaks of 1969 and 1970. Medium and longer-term Treasury issues are now trading in a narrow range aroung 6 percent, as much as 2 percent below peak levels. At the same time, these yields are still far above levels that would make financing at 4-1/4 percent a practicable or foreseeable proposition.

I will not attempt to forecast interest rates. But I must express my conviction that it would be imprudent to refrain entirely from medium or long-term financing in the hope that market rates will soon decline to a level that would make such financing practicable within the current ceiling. The possibility of increases, as well as the hope of declines, much be considered in appraising possible costs.

More basically, we cannot afford to arrange the financing program of the Government on the basis of uncertain expectations as to the future level of interest rates. I do not want to contemplate the effects on future Treasury financing and on the structure of our debt should the ceiling remain in force and prohibit longer-term financing for a further extended period. The pile-up of short-term securities would continue. The risks of disrupting capital markets at a critical juncture would increase. The threat of renewed pressure on thrift institutions would need to be considered.

I believe the importance of lifting this ceiling is widely appreciated. Every man living who has served as Secretary of the Treasury joins me in supporting the removal of this ceiling now. There is strong support among professional economists -- including those prominent in the counsels of both political parties and otherwise divided on many policy issues. Organizations concerned with the health of our financial institutions, with the mortgage market, and with home building have publicly expressed their conviction that the ceiling should be relaxed. Impartial investigations -- including the inquiry of more than a decade ago of the Commission on Money and Credit and the Commission on Mortgage Interest Rates appointed in 1968 by President Johnson -- have made similar recommendations.

I can assure the Committee that the Treasury has no plans for pressing massive sales of long-term bonds on a reluctant market. We do need, however, additional scope for selling securities beyond the seven-year area of the market, and we do need the capacity to sell longer-term bonds from time to time, as market conditions permit, to maintain an orderly and prudent financing pattern. Carefully managed, I am convinced that such debt can be placed without undesirably impinging upon competing demands for credit.

A reading of financial history as recently as the early 1960's demonstrates effectively the means by which we could, over time, achieve a more balanced and prudent debt structure, consistent with the needs of other borrowers and stable market conditions. The alternative is to see the debt become still shorter and less manageable, at substantial risk to the orderly operation of financial markets. That alternative must be rejected.

I urge that you provide the Treasury with the authority essential to plan an orderly financing program by removing the 4-1/4 percent ceiling.

Attachments

TABLE I

PUBLIC DEBT SUBJECT TO LIMITATION

FISCAL YEAR 1971
(In billions)

	Operating Cash Balance (excluding free gold)	Public Debt Subject to Limitation
1970	A C T U A L	
June 30	$7.9	$373.4
July 15	5.5	377.7
July 31	7.3	379.1
August 17	6.4	383.5
August 31	7.2	383.4
September 15	3.3	383.1
September 30	8.7	381.2
October 15	4.2	382.2
October 30	6.3	382.7
November 16	4.1	385.4
November 30	5.8	386.1
December 15	3.7	389.5
December 31	8.0	391.6
1971		
January 15	4.0	392.1
January 29	9.5	390.8
	E S T I M A T E D	
(Based on constant minimum operating cash balance of $6.0 billion)		
February 16	6.0	391.9
February 26	6.0	391.0
March 15	6.0	398.0
March 31	6.0	396.0
April 15	6.0	401.5
April 30	6.0	392.7
May 17	6.0	398.0
May 31	6.0	400.0
June 15	6.0	404.7
June 30	6.0	396.5

TABLE II

ESTIMATED PUBLIC DEBT SUBJECT TO LIMITATION

FISCAL YEAR 1972
(In billions)

1971	Debt with $6.0 cash balance	With $3.0 margin for contingencies
ne 30	$396.5	$399.5
ly 15	403.1	406.1
ly 30	403.9	406.9
gust 16	409.3	412.3
gust 31	409.4	412.4
ptember 15	413.0	416.0
ptember 30	405.3	408.3
tober 15	410.8	413.8
tober 29	409.1	412.1
vember 15	413.0	416.0
vember 30	413.7	416.7
cember 15	418.4	421.4
cember 31	416.1	419.1
1972		
nuary 17	422.5	425.5
nuary 31	414.6	417.6
bruary 15	418.8	421.8
bruary 29	419.4	422.4
rch 15	426.0	429.0
rch 31	423.8	426.8
ril 17	429.7	432.7
ril 28	419.1	422.1
y 15	424.6	427.6
y 31	425.9	428.9
ne 15	430.6	433.6
ne 30	420.0	423.0

February 17, 1971

Table III

Reconciliation of Unified and Federal Funds Budget

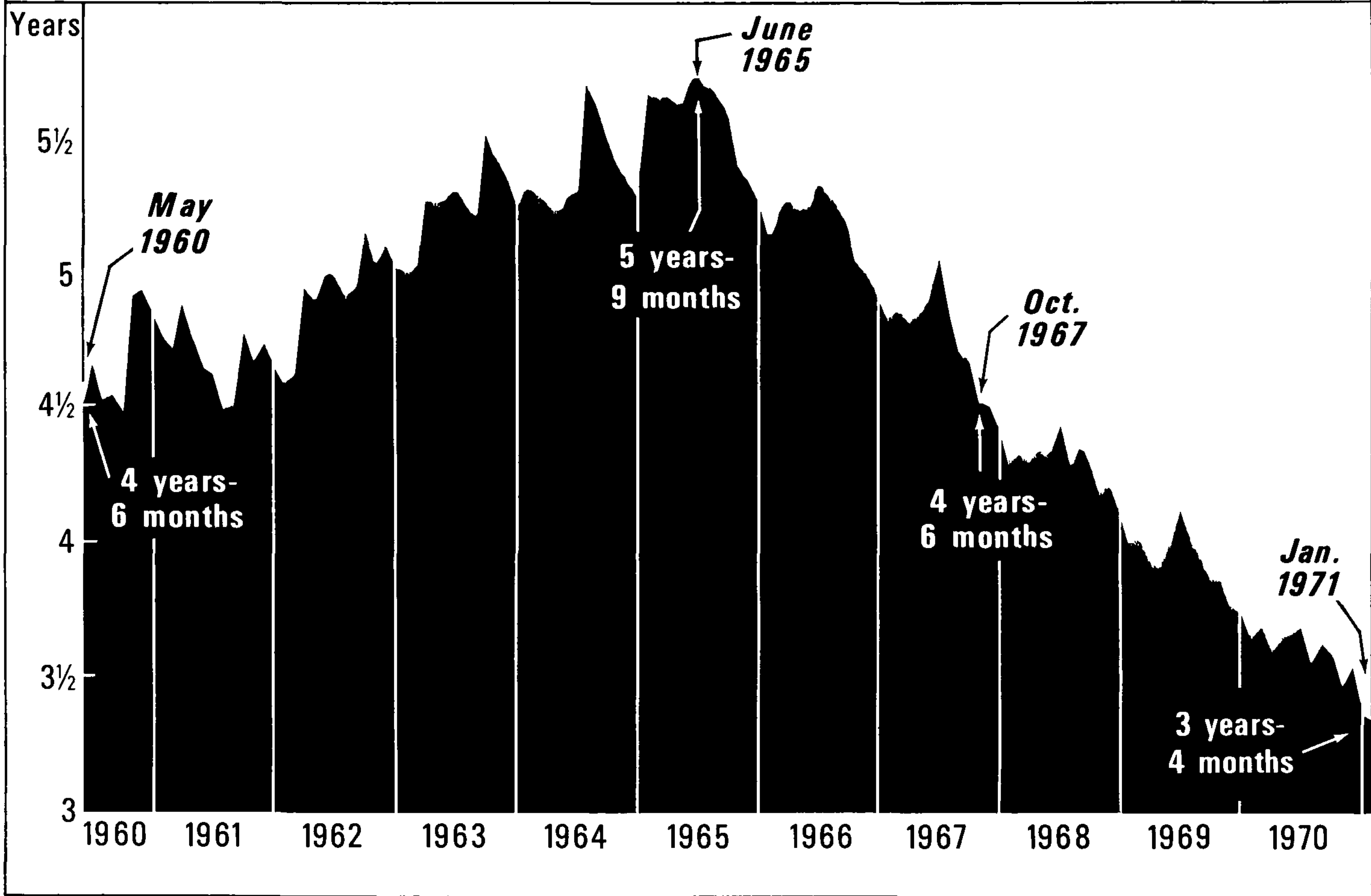
Expenditure Account	Fiscal Years* 1971	1972
	($ billions)	
Receipts		
Total Unified	194.2	217.6
Federal Funds	139.1	153.7
Trust Funds	66.2	75.5
Less: Intragovernmental Transactions	-11.1	-11.6
Outlays		
Total Unified	212.7	228.3
Federal Funds	164.7	175.9
Trust Funds	59.2	64.0
Less: Intragovernmental Transactions	-11.1	-11.6
Budget Surplus or Deficit (-)		
Unified	-18.6	-11.6
Federal Funds	-25.6	-22.2
Trust Funds	7.0	11.5

*Figures are estimated. Totals may not add due to rounding.

Chart 1

AVERAGE LENGTH OF THE MARKETABLE DEBT

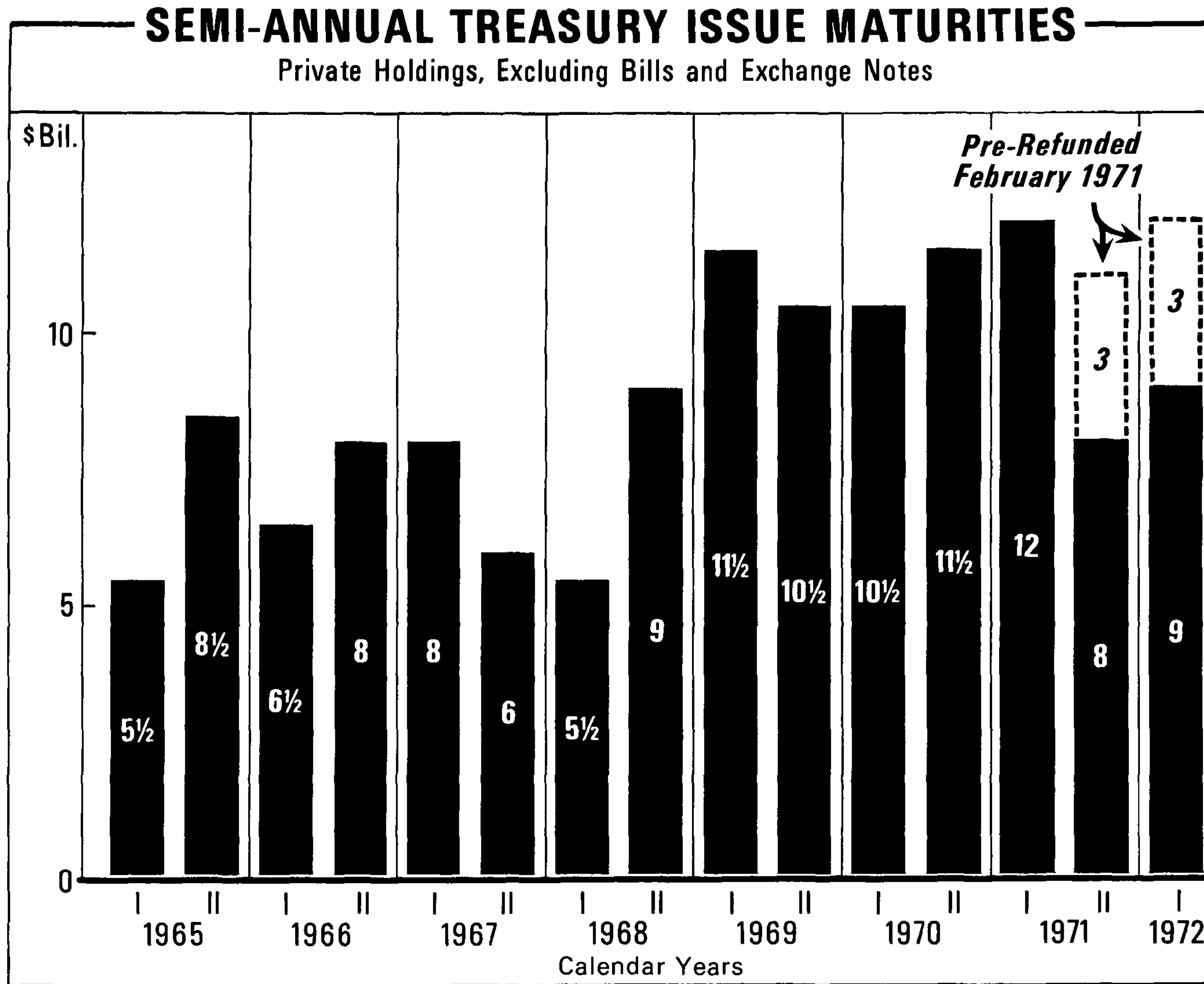
Privately Held



Office of the Secretary of the Treasury
Office of Debt Analysis

February 8, 1971-1

Chart 2



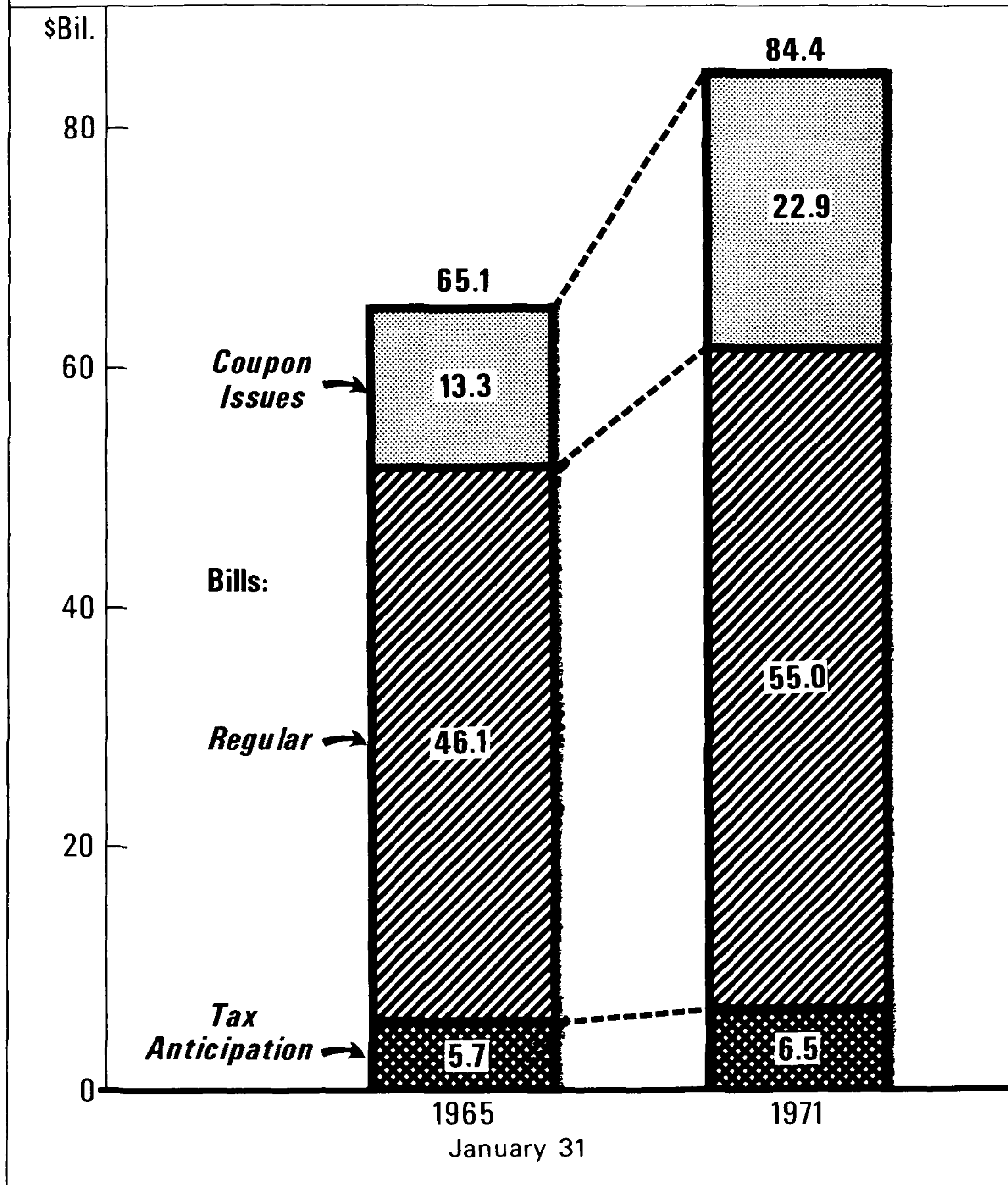
Office of the Secretary of the Treasury
Office of Debt Analysis

February 10, 1971-1

Chart 3

UNDER 1-YEAR TREASURY MARKETABLE DEBT BY TYPE

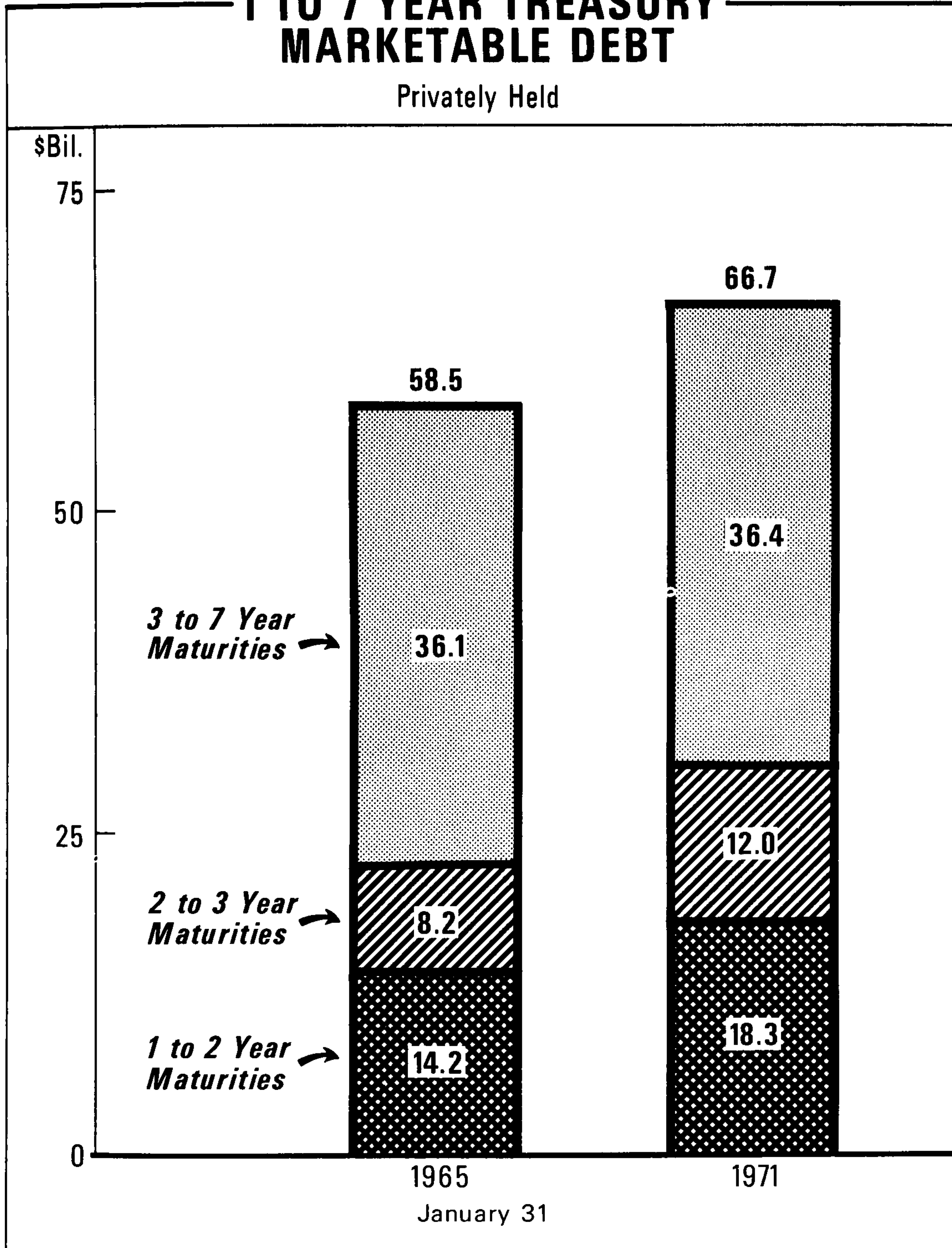
Privately Held



Office of the Secretary of the Treasury
Office of Debt Analysis

February 10, 1971-6

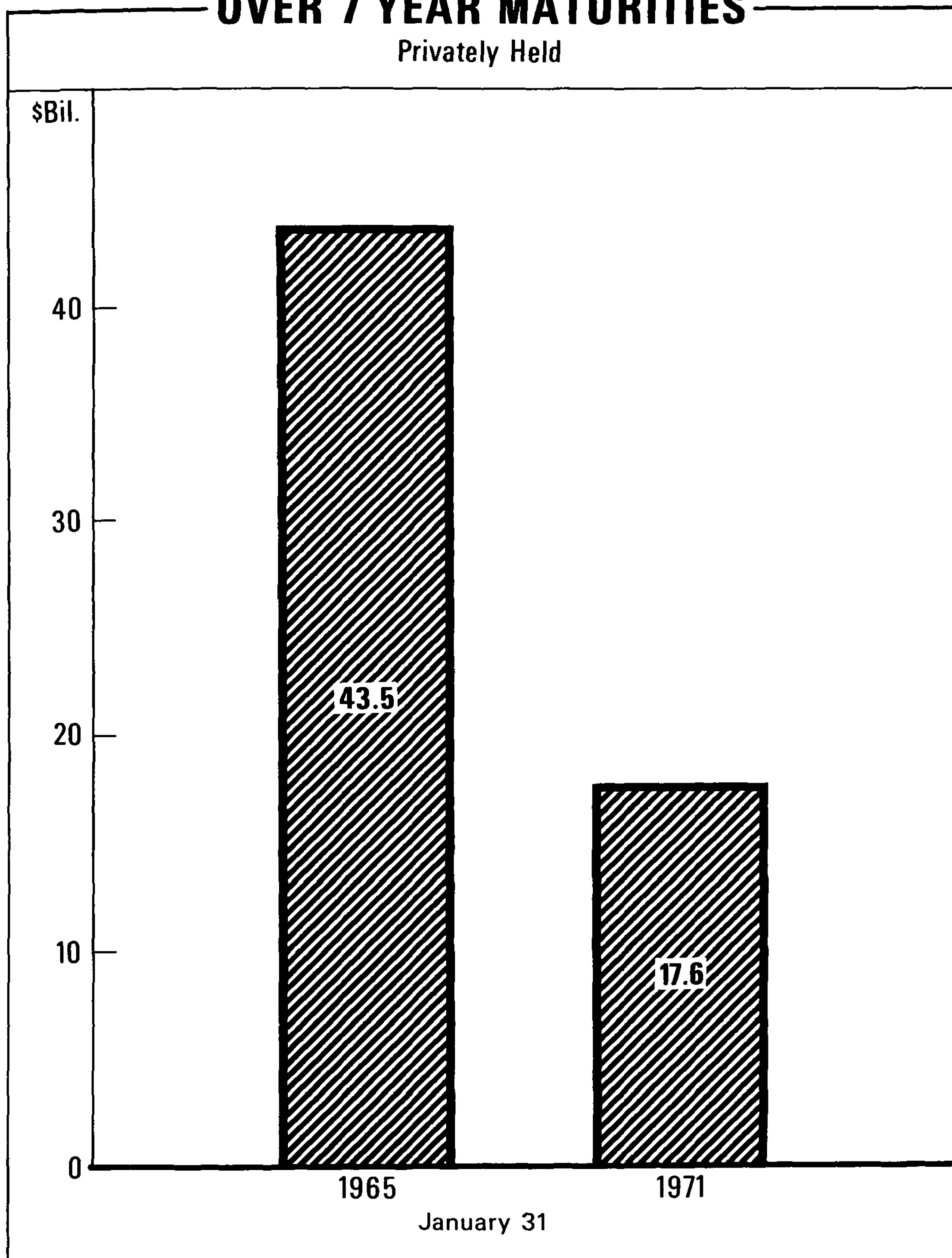
Chart 4



Office of the Secretary of the Treasury
Office of Debt Analysis

February 10, 1971-5

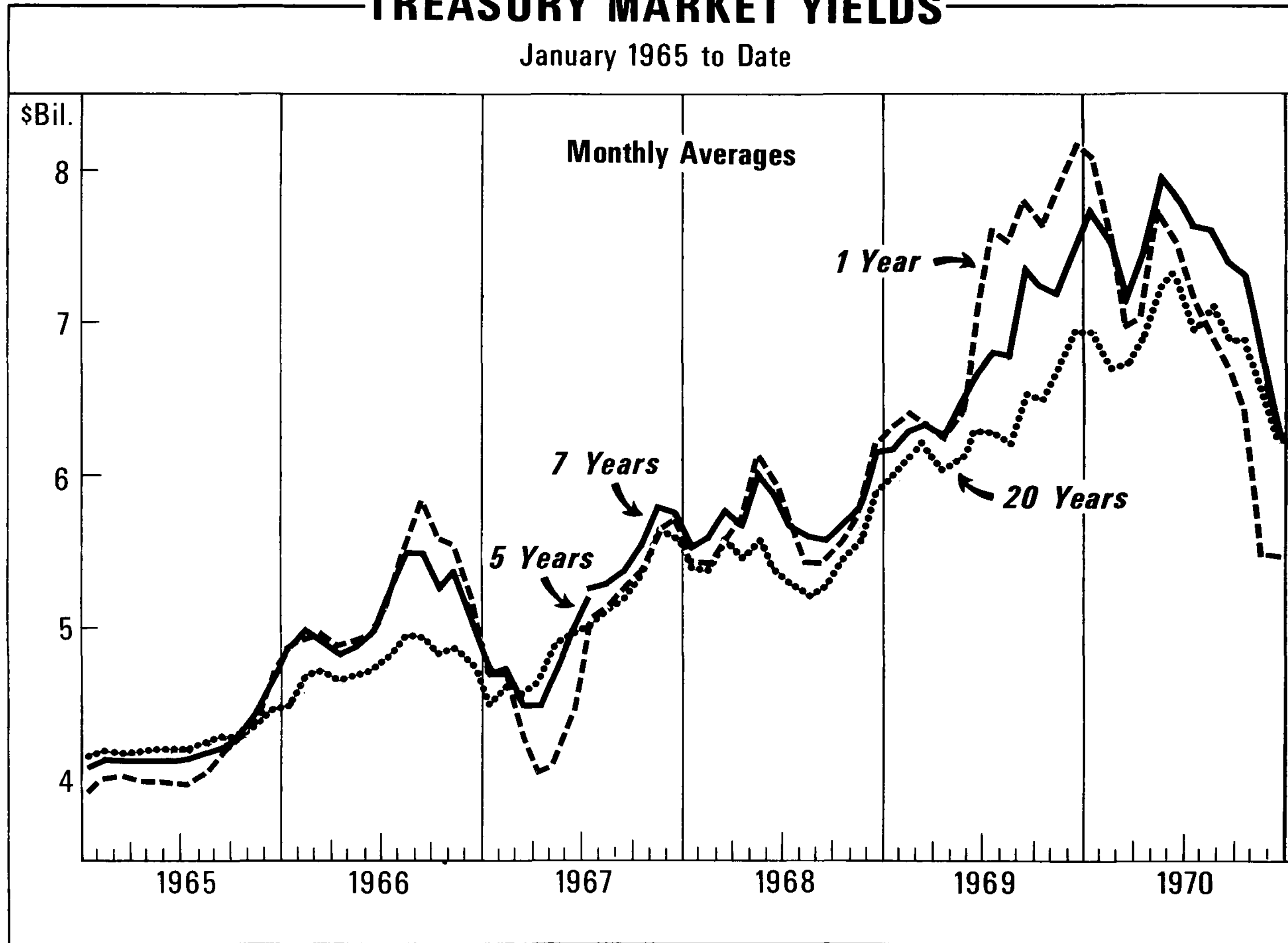
101



Office of the Secretary of the Treasury
Office of Debt Analysis

February 10, 1971-4

Chart 6



Office of the Secretary of the Treasury
Office of Debt Analysis

February 10, 1971-3

Department of the TREASURY

NGTON, D.C. 20220 TELEPHONE WO4-2041

NEWS

FOR RELEASE UPON DELIVERY

STATEMENT BY THE HONORABLE JOHN R. PETTY
ASSISTANT SECRETARY OF THE TREASURY
FOR INTERNATIONAL AFFAIRS
BEFORE THE
SUBCOMMITTEE ON INTER-AMERICAN AFFAIRS OF
THE HOUSE FOREIGN AFFAIRS COMMITTEE
THURSDAY, FEBRUARY 18, 1971, 10:00 A.M., EST

Mr. Chairman and Members of the Subcommittee on Inter-American Affairs, let me thank you for providing this welcome opportunity to review again -- from my perspective in the Administration at the Treasury Department -- certain aspects of U. S. participation in the Inter-American Development Bank.

My statement will focus first, on the evolution of the Inter-American Development Bank over the last year, second, on the efforts and progress toward strengthening the Bank's operational capability, and third, on the Inter-American Development Bank as an instrument through which the United States is forging a mature partnership concept with Latin America.

In preparing these remarks, I was impressed with how closely my own appraisal of economic development in the hemisphere coincides with the appraisal of broader hemispheric

relationships contained in the statement of the Chairman of this Subcommittee before the Inter-American Conference of the Partners of the Americas in Costa Rica on January 25. I agree with you, Mr. Chairman, that Latin America is beginning to move ahead and that with appropriate additional inputs -- some local and some foreign -- its goals of further progress can be achieved. Movements are underway in Latin America from which human skills are broadening, developmental institutions are emerging and economic infrastructures so critical to accelerated development are expanding. The Inter-American Development Bank plays no small part in stimulating within the hemisphere the will and the means by which these fundamental objectives are realized. The Bank's own skills and its contribution to Latin development have paralleled the progress which the Chairman identified.

Major IDB Developments During the Past Year

Since I was last before this Committee in June two important events occurred: first, the election of a new Bank President and second, the replenishment of the Bank's resources and U. S. Congressional action thereon.

In October of last year, Dr. Felipe Herrera submitted his resignation from the Presidency of the Bank, which he had occupied since its inception in 1959. His contribution to the establishment of an institution which has responded in

a creative way to the development needs and aspirations of Latin America cannot be underestimated; nor can the esteem with which he is regarded throughout the hemisphere for his devotion to the cause of inter-American progress. During his tenure, the Bank was transformed from a distant hope into a vital and effective reality. Under his leadership this past decade, an institution has been shaped which is now the principal vehicle through which we seek to define together our hemispheric development partnership. This has been no mean achievement.

In November, the Board of Governors of the Bank elected an eminent successor to the Presidency of the Bank. Dr. Antonio Ortiz Mena served for twelve years with great distinction as Mexico's Secretary of the Treasury and is regarded as one of the chief architects of Mexico's outstanding economic progress. Prior to that major responsibility he managed his country's social welfare system; earlier still he managed Mexico's public works bank. Dr. Ortiz Mena will formally take office on March 1. He brings to his new office proven financial and administrative capacities, as well as an established reputation not only in the official but in the private international financial circles on which the Bank must rely for an important part of its financing.

At Punta del Este last April, agreement was reached by the several member governments on a substantial increase in the Ordinary Capital resources of the Bank as well as in the Fund for Special Operations. The details -- including the increase in the Latin share of the contribution -- were covered in our last appearance before this Subcommittee.

A second major event of last year was the approval which Congress gave to the full U. S. participation in the Ordinary Capital aspects of the replenishment even though, because of the parliamentary situation in the Senate at the close of the last Congress, only $100 million of the House-approved U. S. participation of $1 billion in the Fund for Special Operations increase was actually authorized. The President has already requested the 92nd Congress to complete this unfinished business and draft legislation has been introduced. Our undertakings at Punta del Este to replenish the Bank's resources were received by the Latin Americans as tangible evidence of our interest in their progress and I am hopeful the Congress will promptly pass legislation authorizing the remaining $900 million of our pledge to the Fund for Special Operations.

Continued financial support for the IDB is of special

significance because the upward trend in our support permitted the Inter-American Committee for the Alliance for Progress (CIAP) to conclude, in its recent review of the United States, that this country had amply met the assistance targets set at the outset of the nineteen sixties. The authorization now pending before the Congress is a key element in the judgment of CIAP and of Latin America in general as to the future intentions of the United States toward Latin American development.

As for the Bank's operations during 1970 and early in 1971, lending levels increased substantially. The cumulative total of loans from the Bank's own resources as of December 31, 1970, was $3,508 million, an increase of $637 million over the preceding year end. The Bank's volume of lending places it second to the World Bank in Latin America and very substantially above U. S. bilateral lending in the region.

Resources directly appropriated by the member countries were supplemented by borrowings in the private market which now total $ 915.1 million, of which 38.7 percent has been borrowed abroad. The Bank successfully returned to the U. S. capital market in October after an absence of more than two years, with a $100 million issue. At the same time, the Bank's intensive efforts to raise funds outside the United States

resulted in its obtaining a gross amount of $91 million of Ordinary Capital resources through placements abroad during 1970. Since the turn of the year, the Bank has arranged further placements outside the United States amounting to $32 million and additional issues are in negotiation.

Progress in Strengthening the Bank's Operational Capabilities

I would like to turn now to the area that proved to be a major focus of our discussions last year; that is, the effectiveness of the Bank in carrying out its assigned tasks, including aspects of the way in which the Treasury is discharging its responsibilities for U. S. participation in the Bank. Subsequent to the Hearings before this Subcommittee, both the House Banking and Currency Committee and the Senate Foreign Relations Committee examined our participation in this Bank and then recommended U. S. increased contributions to its capital.

As the representative of the U. S. Governor of this Bank and of the executive department responsible for the administration of forty-two percent of the shares of this institution -- shares constituting a major investment of U. S. tax payers' money -- I do wish to deal directly with the progress we have registered toward strengthening the Bank's abilities to carry out its mission and our own abilities to participate more

effectively in its work.

In doing so, I want to make clear my belief that this strengthening process begins from an already high level of achievement by the Bank in the field of Latin American development. It has made significant contributions to economic and social advance in the hemisphere, and has thereby served well the goals and objectives of the United States. I would not of course contend that all of the Bank's many pioneering efforts have been free of false starts or that everything the Bank did in the last ten years would be done exactly the same way were the opportunity re-presented. But operations and procedures have been changed and improved in the past, and I am sure more changes and improvements are ahead.

Change and improvement are characteristic of any dynamic institution. The nature of this bank, the lack of experience of many of its borrowers, the evolution in standards and objectives which is a feature of a new enterprise -- all of these lead us to evolutionary and beneficial changes. In evaluating whether or not more problems should have been foreseen (or why stricter standards had to be introduced progressively), consider the enormity of the vision: the development of a continent, the drawing together of over 20

countries, the creation of common habits of appraisal, planning operating and decision making. Too quickly now we lose sight of the hardships overcome. Some still lie ahead. But standards must be further improved -- and that is exactly what is underway.

As agreed in early 1970, when the current increase in the Bank's resources was in its earliest planning stages, the Executive Board of the Bank has undertaken a study of the Bank's operational ability to handle the intended expansion. This matter has been pursued steadily and is the genesis of a recently concluded contract with an independent management consultant firm for a comprehensive review of the organization of the Bank's total lending process, and of certain other aspects of its organization and operating procedures, including functions carried out in Washington and in the field. The U.S. Governor has on several occasions strongly encouraged this development.

The Bank is entering a period of consolidation. The achievements of the past must be secured, the road to the future carefully planned. This need coincides with the arrival of the new President, who is both an experienced administrator, and a man dedicated to the development of Latin America. The results of the management study due this spring should be of considerable help to Dr. Ortiz Mena in forming his own recommendations about the Bank's internal organization.

Progress is also being registered in the work of the so-called "group of controllers", the independent evaluation

and audit mechanism established in the Bank on the initiative of the United States pursuant to the Selden Amendment to our IDB legislation. The new U.S. member of this group commenced his duties in August 1970. This multilateral program review mechanism has now produced its third study, which is the second one dealing with Bank operations in a particular country. This is now under consideration by the Board of Executive Directors. The audit group is now turning its attention to other functional aspects of the Bank's operations and the prospects are bright that its work will result in an in increasing flow of action-oriented recommendations for operational improvement. I might note here that the General Accounting Office is now completing its examination of the scope of the audit group's reports and they will be submitting their comments to Congress before long.

This now brings me to an issue difficult to relate: what is the best way to evaluate a completed project? Not only how do you evaluate past experiences but how do you translate lessons on old projects into new procedures? There is no accepted set of criteria for this kind of analysis and there is perhaps as much art and feel in arriving at proper conclusions as there is science. Yet it is exactly the kind of analysis that must be engaged in if we are to achieve the

aximum effectiveness for a development dollar.

An illustration of a simple project will pose the uestion more clearly. A 100 mile road is built through a ountain range to open new areas for development. Forecasts re made of the traffic the road will carry over each of a umber of subsequent years. It was this forecast which upported a particular cost/benefit performance. The evaluation - 5 years after the road was finished -- measured the actual raffic against the forecasted traffic.

This is a hard test -- checking upon a prediction -- but t is a necessary test. These evaluations provide the iscipline necessary in any financial enterprise. They should e approached with the attitude "what did we learn from this xperience that will permit us to do better next time"

Two other elements are needed besides this operations valuation attitude:

-- an experienced and serious evaluation team; and

-- a management and board attitude keen on capitalizing on lessons revealed.

What I have just been saying has considerable relevance o recent press articles on the Bank's early irrigation loans o Mexico.

I would simply like to comment on what is not involved here: there is no question about the soundness of the Bank's assets -- they are fully guaranteed by the Government of Mexico; there is no question about the accomplishment of the physical works called for in the loan agreements -- these were long since completed (although with variations from targets in some cases); and there is no question about whether production increases were achieved in the areas covered by the loans, since these were realized in all cases.

What is involved is not whether Mexico is better off for having received the loans (it clearly is) but rather if still more could have been achieved if certain things had been done differently or the funds alternately employed. Most of the factors affecting the size of the gains realized depend on collateral and follow-through actions by the host government and not by the Bank. Mr. Costanzo, our Executive Director, is prepared to comment further on this subject if the Subcommittee desires.

Let me turn now to developments in the conduct of U. S. participation in the IDB, as distinct from the

aspects of the IDB 's own operations which I have been describing. Members of this Committee will recall that last year the Treasury was discussing with the General Accounting Office an appropriate form of GAO review of U. S. participation in multilateral institutions -- a review that would develop all the information necessary while respecting the international nature of such institutions. A GAO team commenced its review several months ago in Treasury. This is both an instructive and constructive give and take and I am sure the government is gaining useful experience from the exercise.

I should also inform the Committee that last fall we carried out within the Treasury an extensive reorganization of the international affairs function that falls within my own area of responsibility. As part of this reorganization, there is now a division for Development Finance headed by Deputy Assistant Secretary Hennessy. All of the Treasury's responsibilities toward the multilateral lending institutions have been combined within a program office reporting to me through the Deputy Assistant Secretary for Development Finance. The result of this new arrangement is that the Inter-American Development Bank's programs and performance can more easily be appraised in relation to the programs

and performance of other worldwide and regional multilateral institutions. Moreover, the Secretary of the Treasury created a new post last fall, the Inspector General for International Finance -- a post filled by one of our most able and experienced career financial officials, Mr. Ralph Hirschtritt. The Secretary and I rely heavily on the judgment of this man and his duties give him a free hand to pursue areas which his hard nose and long experience select.

IDB and a Mature U. S.-Latin American Partnership

President Nixon's message on economic assistance of last September charts a new and significant course for U. S. development aid in Latin America and around the world. Like the Peterson Report on which it relies heavily, the President's message looks to multilateral institutions as increasingly important channels for U. S. development lending assistance.

One result of the new thrust in assistance policy is that the Inter-American Development Bank will increasingly occupy the center of the stage in the hemispheric development field, along with the Latin American operations of the World Bank. Such a development is in line with the President's concept of a more mature U.S.-Latin American relationship, since both the decision making and funding aspects of the Inter-American Bank are carried out on a shared, cooperative basis. We cannot expect, in a true partnership, that every decision will be taken exactly as we would wish; correspondingly, our Latin American associates in this joint enterprise cannot, and I believe will not, be insensitive to the various factors that impinge on and help determine our ability to provide continuing financial support to the Bank. Indeed, these countries are agreeing to give the poorer nations among them greater access to the soft loan resources. This indicates that the roles of individual Latin American members of the Bank are beginning to differentiate, with some beginning to assume donor country responsibilities and others, the Bank's least developed members, being the principal recipients of its concessional loan financing. This is one aspect of an emerging mature partnership. Increasingly, the Bank is serving as a leading edge of a heightened sense of sharing and common purpose in the development tasks of the hemisphere.

One key feature of the President's new structure for bilateral assistance is that our development aid should have development effectiveness as its basic criteria. This principle has even greater application to the multilateral financial institutions. These institutions serve well our broad foreign policy goals, but they should not and cannot be asked to serve particular short term foreign policy interests. To try would be to jeopardize their multilateral status and the gains that we are trying to achieve through use of their facilities. New habits of mind from those we brought to bear on our bilateral program will often be required of us. Correspondingly, our Latin American partners will have a responsibility to regard issues raised by us on serious economic grounds as in fact economic issues, and avoid the easy temptation to assu a political bias behind economic rigor. The credibility of our commitment to a mature partnership with Latin America as expressed through our participation in the Inter-American Bank may well reside squarely in the degree to which U. S. Executive and Legislative Branches are prepared to proceed with financing projects that make sense, while at the

same time working out through other means the short term bilateral difficulties that are bound to arise in day-to-day relations of sovereign states.

There can be, of course, points where even our broad and long term national interests are not served and then our relations with the institution are bound to reflect that situation. This requires careful consideration on our part.

One other subject is relevant to this discussion of a mature relationship with Latin America through the Inter-American Development Bank, and it involves a new institutional initiative that we touched on briefly at these hearings last year -- the possibility of closer relationships between the Bank and developed countries other than the United States. I have never felt that the special relationship we now have with Latin America, and which is now reflected in the present membership of the Bank, need be an exclusive relationship. Because we have concluded that opening the Bank to some form of membership by other developed countries would bring with it a more assured flow of resources for the Bank, and because we do not believe that alternative mechanisms are likely to yield comparable results, we have been urging other Bank members to consider admitting Canada and other donors as full -- if minority -- members. Others have suggested a form of "associate membership" for new donors and we can explore that too.

The vehicle for negotiating on this subject is a Special Committee of the IDB Governors, which met earlier this month in Caracas and which I will again attend at the end of the month in Buenos Aires. In my discussions in that group, I have made clear that it is not our intention to alter the basic Latin American character of the IDB, and I am satisfied that an appropriate structure is feasible that will safeguard that character. Although Latin American thinking on this subject is evolving slowly, there are still misgivings about allowing other developed countries -- apart from Canada, which is regarded as a special case -- a voice in the normal operations of the Bank commensurate with the minority share-holding position those countries might assume. Because of the importance of this subject to future burden-sharing among the developed countries, I intend to continue our effort within the Special Committee of Governors. The outcome of these discussions could have important implications for future capital resources available to the Bank.

* * * *

Mr. Chairman, I hope this review has been a helpful one for this Committee. I personally regard these sessions as a welcome additional avenue of communication between the legislative and the executive branch and to the taxpayer -- individuals who are not at all anonymous to us at Treasury. Your Subcommittee brings new points of view to bear on the Treasury's administration of U. S. participation in the Bank and we are stimulated by those perspectives.

artment of the TREASURY NEWS

I, D.C. 20220 TELEPHONE W04-2041

ELEASE 6:30 p.m.,
day, February 18, 1971.

RESULTS OF OFFERING OF $1.2 BILLION STRIP OF TREASURY BILLS

The Treasury Department announced that tenders for additional amounts of six s of Treasury bills to an aggregate amount of $1,200,000,000, or thereabouts, issued February 26, 1971, which were offered on February 11, 1971, were opened e Federal Reserve Banks today. The amount of accepted tenders will be equally ed among the six issues of outstanding Treasury bills maturing May 27, June 3, 10, June 17, June 24 and July 1, 1971. The details of the offering are as ws:

Total applied for - $4,060,690,000
Total accepted - $1,200,480,000 (includes $196,800,000 entered on a non-competitive basis and accepted in full at the average price shown below)

OF ACCEPTED TITIVE BIDS:	Price	Approximate equivalent annual rate of discount based on 107.5 days (average number of days to maturity)
High	99.059	3.151
Low	99.011	3.312
Average	99.020	3.282 1/

of the amount bid for at the low price was accepted

TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

ict	Applied For	Accepted
n	$ 145,290,000	$ 120,900,000
ork	1,882,380,000	291,150,000
delphia	147,930,000	14,010,000
land	225,150,000	140,850,000
ond	54,000,000	42,000,000
ta	49,780,000	34,470,000
go	588,570,000	128,250,000
ouis	103,590,000	29,520,000
apolis	417,810,000	285,030,000
s City	138,870,000	97,980,000
s	156,120,000	8,520,000
rancisco	151,200,000	7,800,000
TOTALS	$4,060,690,000	$1,200,480,000

his rate is on a bank discount basis. The equivalent coupon issue yield is 3.36%.

Department of the TREASURY

NGTON, D.C. 20220 TELEPHONE W04-2041

NEWS

OR RELEASE UPON DELIVERY

STATEMENT BY THE HONORABLE JOHN B. CONNALLY
SECRETARY OF THE TREASURY
BEFORE THE SENATE COMMITTEE ON APPROPRIATIONS
FRIDAY, FEBRUARY 19, 1971, AT 2:30 P.M.

Mr. Chairman and members of the Committee, I am pleased :o appear before you today to discuss Treasury operations as 'elated to the budget, with particular reference to our revenue :stimates.

The table appended to my statement presents the revenue ;ide of the Federal Budget in considerable detail, but I will :ouch on a few of the highlights. Unified budget receipts in :iscal 1972 are estimated at $217.6 billion, an increase of ;23.8 billion over fiscal 1971. (Federal fund receipts -- :xcluding trust fund operations -- are estimated at $153.7)illion in fiscal 1972, an increase of $14.6 billion over 1971). 'hese estimates are based on the expectation that the GNP in :alendar 1971 will total $1065 billion, an increase of $88)illion over calendar 1970. This contrasts with a GNP increase)f $45 billion in calendar 1970 over 1969. Corporate profits)efore tax in 1971 are estimated to be $98 billion - an increase)f $16 billion over 1970.

The rise in budget receipts from fiscal year 1971 to 1972 /ill result mainly from the growth in economic activity expected .n the next year and a half. The changes in tax receipts also 'eflect administrative and legislative actions. The adminis- :rative change accelerating payments of the individual income :ax, the social security tax, and excise tax payments adds ;1.2 billion in receipts in fiscal 1971. This one-shot gain .n 1971 is not repeated in 1972. It should be noted that the ıcceleration of these taxes did not add to tax liabilities but ıerely shortened the pipeline time in the payment reaching :he Treasury.

A second administrative change is the depreciation reform 'ecently announced by the President. This reduces receipts by ;0.7 billion in fiscal 1971 and by $2.7 billion in 1972. New

.egislation proposed in the Budget will increase 1972 total :eceipts over 1971 by $2.8 billion. Almost all of this comes from the proposed increase in the social security tax base from $7,800 to $9,000 effective January 1, 1971, which is reflected only in the unified budget.

Although the projected Federal Budget will require somewhat less borrowing in fiscal 1972 as compared with the current year, we will require an increase in the debt limit. In adjusting the debt limit I hope the Congress will grant an increase which will be adequate to meet our needs at least through fiscal 1972.

In meeting our borrowing needs we are looking forward to more favorable market conditions in the coming year than we have enjoyed for a number of years. In this context it would be in the public interest if we could do some financing in the long term area where the 4-1/4 percent statutory ceiling has blocked the issuance of any new obligations since 1965.

I have urged the Congress to remove this archaic restriction, and I am pleased to report that yesterday the House Ways and Means Committee voted some relaxation of the ceiling.

I shall be pleased to respond to your questions.

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Budget Receipts
Under Legislation Proposed in Fiscal 1972 Budget Document
Fiscal years. In billions of dollars.

ategory	Actual 1970	Estimated 1971	Estimated 1972
ndividual income tax	90.4	88.3	93.7
orporation income tax	32.8	30.1	36.7
nployment taxes and contributions	39.1	42.3	50.2
nemployment insurance	3.5	3.6	4.2
ontributions for other insurance and retirement	2.7	3.1	3.2
xcise taxes	15.7	16.8	17.5
state and gift taxes	3.6	3.7	5.3
ustoms duties	2.4	2.5	2.7
iscellaneous receipts	3.4	3.8	4.1
Unified budget receipts	193.7	194.2	217.6
educt:			
Trust funds, etc.	50.6	55.1	63.8
Federal funds receipts	143.2	139.1	153.7

Underlying Economic Assumptions - Calendar Years

	1969	1970	1971
NP	931	977	1065
ersonal income	749	801	868
orporate profits before tax	91	82	98

ffice of the Secretary of the Treasury
Office of Tax Analysis

ote: Figures do not necessarily add to totals due to rounding.

Department of the TREASURY

NGTON, D.C. 20220 TELEPHONE W04-2041

NEWS

FOR RELEASE UPON DELIVERY

STATEMENT OF THE HONORABLE MURRAY L. WEIDENBAUM
ASSISTANT SECRETARY OF THE TREASURY FOR ECONOMIC POLICY
BEFORE THE JOINT ECONOMIC COMMITTEE OF THE U. S. CONGRESS
WASHINGTON D.C.
MONDAY, FEBRUARY 22, 1971, 10 A.M. EST

WHY REVENUE SHARING?

It is always a pleasure to appear before the Joint Economic Committee and to participate in what must be one of the longest and most productive continuing economic seminars of modern times. It is in that spirit that I have prepared this statement on revenue sharing.

To begin with, we are all trying to deal with some very basic and difficult problems facing the American economy and the American society. The financial crisis now confronting so many of our cities and other state and local governments is very real. I use the term crisis both reluctantly and advisedly. One has only to read the recent testimony before this Committee by some of the mayors of our largest cities to realize the depth and dimension of the almost overwhelming economic, financial, social, and political problems that threaten the vitality if not the very existence of major portions of our Federal system.

I would like to recall just a brief excerpt of the straightforward but inherently dramatic account of Newark's financial condition by Mayor Gibson:

> "Upon taking office in July 1970, I found an estimated deficit for 1971 of over 70 million dollars, or over 40% of the budget. The budget crisis was brought on by a 10% decrease in city revenues and an increase

> of $50 million in expenditures ... largely the result of mandated appropriations for essential municipal services. To fill this gap through increased property taxes, we would have had to raise the present rate, already one of the highest in the nation, by 50 percent... After months of study and consultation, we finally opted for a series of taxes on Newark's businesses and consumers... We are aware that these are highly discriminatory and regressive taxes ... but we had no alternative."

Of course, there is a real and effective alternative and I will be presenting it. However, we must realize the inadequacy and often the perversity of the many prior attempts by the Federal Government to solve or even ameliorate the kinds of problems faced by Newark and other state and local governments.

This is not an after-the-fact rationalization on my part of our specific recommendation. On the contrary, that was the conclusion of many years of prior study and experience on the part of those of us who have been most active in designing the revenue sharing approach.

In my own case, I arrived at such findings in the research that I did while still in the private sector. I would like to quote briefly from the volume that sums up that work:

> "The question arises inevitably as to the extent the grant-in-aid system is converting the states into veritable agents of the Federal Government. Is there the possibility that the states may become the civilian counterparts to the arsenal-like, government-oriented corporations in the military sphere? The actual extent to which Federal control and influence are exercised varies substantially both by program and region, but the cumulative effect is quite substantial." 1/

1/ M. L. Weidenbaum, The Modern Public Sector, New York, Basic Books, Inc., 1969, p. 15.

Indeed, my conclusion was hardly unique and is generally shared by those who have worked with or studied grant-in-aid programs. The real challenge, of course, is to come up with alternatives superior to the status quo. And here I must frankly state that most of the alternatives to revenue sharing that have been suggested recently are not new; in fact, they are precisely the ones that we had considered and, after careful examination, had to reject.

It was clear to us that further direct Federal assumption of local program responsibility or greater expansion of the categorical grant-in-aid system would fundamentally be futile in dealing with the underlying problems facing our state and local governments. To pump substantially more Federal dollars into the proliferating maze of narrow programs represents merely a'reecho of that tired and ineffective response.

Furthermore, this extremely expensive suggestion is now being made by those who have questioned where we will get the money for revenue sharing; the inconsistency in their argument is striking, even though perhaps unintentional. Let us not forget that the overwhelming need is to strengthen, and not to weaken further, the ability of state and local governments to respond effectively to the urgent needs of our times.

Similarly, Federal tax credits for state and local income tax payments may seem like an easy response to this difficult question, but they do not hold up under examination as an effective device for bolstering the financial resources of state and local government. Although no Federal funds would go directly to state or local governments, Federal revenues would be reduced immediately.

Incidentally, I find that there is great ignorance as to how a tax credit works. Nobody is suggesting a 100 percent credit for state and local income taxes against a person's Federal tax liability -- for that would almost amount to a blank check on the Treasury. On the other hand, those who suggest a credit as low as 10 percent, apparently do not understand the Federal tax system. Many taxpayers would be better off by merely taking the existing deduction for state and local taxes.

In any event, our hard pressed states and localities would only benefit to the extent that a credit toward the

Federal income tax softens taxpayer resistance and thus enables state and local governments to institute or raise income taxes above the levels otherwise politically acceptable. Let me be clear. I do not consider tax credits to be an evil thing. Rather, dollar for dollar, I believe that revenue sharing will be more effective in channeling financial resources to our states, cities, and counties. Clearly, a Federal credit for state and local income taxes will do little to help local governments who derive the bulk of their revenues from the property tax. At best, the benefits would be distributed in an uneven, hit-and-miss fashion.

I make no claim that our revenue sharing proposal is even close to perfect. I do state that it was very painstakingly developed. Many, many man-months of time and effort went into its design. The details were carefully worked out with knowledgeable representatives of Federal, state, and local governments, with private citizens, and with Democrats, Republicans, and Independents. In both concept and detail, I believe that you will find it truly a thoughtful and nonpartisan plan offered in good faith.

Hence, I have been very pleased at the overall favorable and often enthusiastic response to our revenue sharing proposal. Yet, I must confess a sense of dismay at the nature of some of the specific reactions. I am deeply concerned over the kind of intellectual environment in which there is a ready desire to believe the worst and a strong reluctance to accept facts demonstrating the contrary. My case in point is the role of the central cities in revenue sharing.

We have repeatedly shown that the central city tends to get a larger share -- not just a larger total share but a larger per capita share -- than suburban communities. That is true in each and every one of the 25 largest metropolitan areas in this Nation. Yet, I still see or hear the inaccurate charge that the Administration's revenue sharing proposal funnels the bulk of the money away from the central cities. There seems almost to be a Gresham's law operating here -- bad information drives out good.

Let me try to explain this point as objectively as I can. The factor determining the allocation of general revenue

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aring among the cities and counties of a given state is
e respective jurisdiction's share of the revenues raised
all cities and counties in the state. As it turns out,
me and time again, the larger the city, the larger the
r capita revenues it raises, and hence, the larger the
r capita share of revenue sharing that it will receive.

This should not be surprising in view of the valiant
forts made by so many of this Nation's localities to deal
th the problems facing them. The reductions in Federal
come taxes that we have been experiencing are in striking
ntrast to the many, many increases of state and local
come, sales and property taxes that have occurred in
cent years.

Again, I urge the members of this distinguished
mmittee to examine the question of revenue sharing from
e point of view of how to best alleviate the financial
isis now facing so many of our state and local govern-
nts. As you may have heard, some have suggested that they
uld like to respond to this real problem but they are
luctant to breach the alleged principle of avoiding the
paration of the taxing power from the spending power.

Now I thought that I was the college professor who would
me up with the theoretical arguments instead of the other
y around. Certainly, it is an interesting juxtaposition of
les. In any event, the $30 billion of Federal grants-in-
d this year surely represent a massive breach of that
inciple -- a principle which, by the way, I do not recall
any political science treatise.

Of course, what we are really talking about -- the
gnificant distinction between revenue sharing and the
rrent aid system -- is the delegation of power and decision
king. Given the gravity of the situation, I do not hesi-
te to approach what is certainly the most powerful
gislative body in the world and suggest that $5 billion out
a $229 billion Federal budget be allocated for state and
cal decision making. Perhaps I need to cite that earlier
inciple -- noblesse oblige.

For the use of this committee, I have attached to my
rmal statement a detailed description of the general
venue sharing proposal. I would now just like to emphasize

a few basic points.

1. We propose that a modest portion of the annual growth in Federal revenues be earmarked for general aid to state and local governments. These funds would come from the automatic expansion in budget receipts as the economy grows. Contrary to many inaccurate reports, the $5 billion program of general revenue sharing would neither require a rise in tax rates nor a reduction in any existing government programs.

2. The revenue sharing money would be distributed to each state, city and county in as fair and equitable manner as we have been able to devise. The allocation would be made according to the precise formulas contained in the Federal statute rather than be subject to the discretion of any Executive Branch official. As the money would be in addition to existing programs, each state, city and county would benefit directly; each would receive revenue sharing money in addition to any benefits, services or money it is now obtaining from the Federal Government.

3. The states, cities, and counties receiving the money would make the decisions as to which purposes the funds shoul be directed. The Federal Government would not second-guess the local determination of local priorities. Financial repor to the Treasury would be required simply to assure that the money was spent for a lawful governmental purpose and in a no discriminatory manner. The local voters, rather than any Federal official, would review the wisdom and effectiveness o the expenditures.

There is another, perhaps more fundamental reason for my concentrating on the basic structure of our general revenu sharing proposal, rather than on the specific details. In the two years that the Administration has been working on thi program, we have been meeting with a great number of people a all levels of government and throughout the private sector as well. The general revenue sharing bill that has been introdu this month reflects in good measure many of the suggestions and ideas that we have received.

Surely, any comparison of the current bill with the one introduced in the previous Congress will demonstrate not

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merely our intent to listen but our willingness to take account of the suggestions and constructive criticism that we have received. It is in that spirit that I urge the members of this Committee to examine the plan for sharing a portion of Federal revenues with state and local governments.

May I also urge that we not overlook the very broad and substantial area of agreement that has been achieved. For example, I am delighted to point out that the revenue sharing bill introduced by my distinguished fellow panelists -- Senator Humphrey and Congressman Reuss -- is consistent with our bill in so many important and fundamental particulars.

To sum up, after the most careful examination, we believe that revenue sharing is a constructive, highly desirable method for strengthening our hard-pressed state and local governments and that it is the most appropriate mechanism available. This Administration has been and will continue to make a high priority effort in its behalf. We hope that you will join us in that bi-partisan, high-purpose venture.

artment of the TREASURY
N, D.C. 20220 TELEPHONE W04-2041
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NEWS

FOR RELEASE ON DELIVERY
EXPECTED AT ABOUT 10:00 A.M., (EST)

STATEMENT BY THE HONORABLE PAUL A. VOLCKER
UNDER SECRETARY OF THE TREASURY FOR MONETARY AFFAIRS
BEFORE
THE HOUSE COMMITTEE ON WAYS AND MEANS
ON THE EXTENSION OF THE INTEREST EQUALIZATION TAX
ON MONDAY, FEBRUARY 22, 1971
AT 10:00 A.M. (EST)

Mr. Chairman, Members of the Committee:

I appreciate this opportunity to appear before your Committee to urge a two-year extension of the Interest Equalization Tax. As you will recall, this tax was first passed in 1964 as a means for reducing the outflow of portfolio capital from the United States to developed countries. Since that time, the law has been extended on three occasions, with some small modifications.

The Interest Equalization Tax applies to the acquisition of foreign securities by U. S. persons. The basic purpose is to raise the cost to foreigners in developed countries of borrowing or raising equity in the

United States. It therefore provides important support for our balance of payments position, particularly during a period when interest rates are relatively low in the U. S. as compared to most other countries. That is, of course, the case at present.

In its present form, the Interest Equalization Tax Act gives the President authority to vary the effective rate of tax between zero and the equivalent of 1-1/2 percent per annum on purchases of securities subject to the tax. At present, the President has set the level of the tax at 3/4 percent.

During the period this tax has been in force, the U. S. has also resorted to mandatory and voluntary restraints in two other broad areas of capital outflows -- the Commerce Department program designed to limit the balance of payments cost of direct investment abroad, and the Federal Reserve program designed to limit outflows of funds from banks and other financial institutions. The three programs are broadly complementary and mutually reinforcing in holding in check the volume of dollars that can move into foreign hands through outflows

of U. S. capital. Without the Interest Equalization Tax, the remaining programs would be substantially weakened.

As you know, the President has stated his intention to relax these programs as soon as the balance of payments situation permits. I wish I could report to you today that the need for these restraints was no longer necessary. However, after full review within the Administration, the conclusion was reached that these programs must be maintained for a further period with little change.

The reason for that decision is readily apparent. The press has reported our balance of payments results for 1970. While no single figure can fairly reflect the complexities of the U. S. international position, the data, read as a whole, are plainly not satisfactory.

On the official settlements basis, our deficit reached almost $10 billion (even after allowing for our allocation of Special Drawing Rights). That figure was heavily influenced by the relative easing of monetary conditions last year in the United States. That easing, after a period of extremely tight money, gave rise to an enormous reversal in flows of interest-sensitive short-term capital.

As a result, the very large official settlements deficit is not a fair reflection of our underlying position.

On the other hand, the welcome improvement in our trade and in our total current account last year must also be placed in perspective. Cyclical conditions, with most foreign markets booming, were exceptionally favorable for our exports. Even so, as Table I shows, the improvement in the current account left us well short of the levels recorded earlier in the 1960's, and the current account surplus failed to cover exports of long-term capital and aid flows by a large margin. As a consequence, our "basic balance" on trade, other current items, and long-term capital was in deficit -- somewhat more than in 1969.

Plainly, we continue to face a major challenge in bringing our position into sustainable equilibrium -- an equilibrium conducive to international monetary stability and free flows of trade and investment.

Dealing with that challenge in a responsible way will require persistent effort over a long period. In some important areas, progress has been slower than we had hoped. By the same token, we have been unable to move as

rapidly as we wished to relax and dismantle the limitations imposed on capital outflows, including the Interest Equalization Tax.

Within the limitations imposed by our balance of payments position, action has been taken from time to time to ease the administration of these programs and the difficulties of businesses in complying. We do not believe, in the light of the present balance of payments circumstances, further relaxation can be justified at this time.

Experience has shown that the IET has been effective in substantially reducing the volume of securities offered in the United States by countries subject to the tax. Since 1963, offerings of developed countries -- apart from Canada, for which there is a special exemption -- have run at low levels, as may be seen in Table II. Similarly, there is evidence to indicate that the tax is a substantial inhibition on U. S. purchases of outstanding foreign securities (see Table III). As a result, much of the burden of foreign financing has properly shifted to other countries in a stronger balance of

payments position.

While maintaining such special measures of restraint as the Interest Equalization Tax, our basic approach toward strengthening our international financial position must be along different lines. Most fundamentally, we must restore a healthy economic climate at home. Orderly growth, increasing productivity, and price stability must be sought hand in hand.

Even if it were acceptable on domestic grounds, I see no salvation for our balance of payments in a sluggish domestic economy. Such an economy would be prone to export capital and unable to attract large volumes of capital from abroad. Temptations to embark on self-defeating protectionist measures would be stronger.

What is essential is that, as economic growth resumes with more vigor, we continue and build upon the progress already made against inflation. The stability of the dollar at home is fundamental to its stability internationally, and to the stability of the world monetary system.

We must be active in promoting basic improvement in

other directions as well. Over time, our trade and current account position should be rebuilt to the point that it can fully support our responsibilities for aid, for defense, and for unrestricted flows of private investment to a capital-short world. That is why we have given much attention in the past year to bringing our export credit facilities more in line with those of other countries, and why we have sought changes in our tax structure that would permit our own manufacturers to compete more fairly and vigorously abroad from U. S.-based plants. In that connection, I hope this Committee will continue its support for the concept of a Domestic International Sales Corporation.

At the same time, we need to continue efforts to break down artificial restrictions on the access of our industry to foreign markets. Members of this Committee are aware of the difficulties and frustrations in that process -- but of the importance as well.

We have all been living with our balance of payments problem long enough to know that there are no quick or easy answers. The domestic inflation and overheating of the late 1960's set back our efforts. Now we are still

struggling with the distortions and imbalances that developed as a consequence of that period.

I believe we are on the path toward successfully coping with those problems. So long as that is the case, I also believe we can legitimately expect the understanding and cooperation of our major trading partners as we restore our position.

The crucial need is that we not neglect our own external responsibilities. By far, the most fundamental of those responsibilities -- at home and externally -- is orderly growth with price stability. But, for the foreseeable period ahead, with our payments in sharp imbalance, our responsibilities also require more specialized efforts to restrain capital outflows. In that context, I believe we must not fail to extend the Interest Equalization Tax for another two years.

Attachments

Merchandise trade balance	5.4	3.9	3.9	0.6	0.6	2.7	(2.2)
Exports	23.0	29.4	30.7	33.6	36.5	42.1	(42.0)
Imports	-17.6	-25.5	-26.8	-33.0	-35.8	-39.4	(-39.9)
Investment income balance	3.5	4.1	4.5	4.8	4.4	4.3	
Receipts from U.S. investments abroad	4.9	6.3	6.9	7.7	8.8	9.6	
Payments on foreign investments in U.S.	-1.3	-2.1	-2.4	-2.9	-4.5	-5.3	
Balance on other services	-2.5	-2.7	-3.2	-2.9	-3.1	-3.1	
BALANCE ON GOODS & SERVICES	6.5	5.3	5.2	2.5	1.9	3.9	
Unilateral transfers, excluding gov't. grants	-0.8	-0.9	-1.2	-1.1	-1.2	-1.3	
BALANCE ON CURRENT ACCOUNT, excluding gov't. grants	5.7	4.4	4.0	1.4	0.8	2.6	
U.S. Gov't. economic grants and credits a/	-3.7	-3.9	-4.2	-4.2	-3.7	-3.4	
Balance on private direct investment	-2.2	-3.6	-2.9	-2.9	-2.2	-3.8	
Balance on securities transactions	-0.8	0.4	-0.3	3.1	1.6	1.0	(1.3)
Balance on various other long-term capital transactions b/	-0.5	0.6	0.2	0.9	0.7	0.3	
BALANCE ON CURRENT AND LONG-TERM CAPITAL ACCOUNTS c/	-1.4	-2.0	-3.1	-1.7	-2.8	-3.3	
Balance on various other capital transactions: Short-term, other than liquid liabilities; long-term bank liabilities to foreign official agencies; non-marketable U.S. Gov't. liabilities; unscheduled debt payments on U.S. Gov't. credits; and Gov't. sales of foreign obligations to foreigners.	---	1.2	0.6	2.3	-1.3	0.1	
Errors and omissions	-0.9	-0.5	-1.1	-0.5	-2.8	-2.0	
Allocation of Special Drawing Rights	---	---	---	---	---	0.9	(0.9)
BALANCE ON LIQUIDITY BASIS	-2.3	-1.4	-3.5	0.2	-7.0	-4.4	(-3.9)
less							
Certain non-liquid liabilities to foreign official agencies	0.1	0.8	1.3	2.3	-1.0	-0.2	(-0.3)
plus							
Liquid liabilities to private foreigners and international organizations	0.7	2.4	1.5	3.8	8.7	-4.5	(-6.2)
BALANCE ON OFFICIAL SETTLEMENTS BASIS	-1.8	0.3	-3.4	1.6	2.7	-8.7	(-9.8)

a/ Net of scheduled repayments.

b/ Excluding changes in long-term bank liabilities to foreign official agencies and in non-marketable U.S. Gov't. liabilities.

c/ One version of the so-called "basic balance".

NOTE: Details will not necessarily add to totals due to rounding.

	1962	1963* First Half	1963* Second Half	1964	1965	1966	1967	1968	1969	1970p/
All Areas	1,076	1,000	250	1,063	1,206	1,210	1,619	1,703	1,667	1,457
IET Countries, Total	356	343	110	35	147	19	14	45	23	130
West. Europe incl. U.K.	195	219	53	35	95	15	---	42	14	130
Japan	101	107	57	---	52	4	14	3	9	---
Other 1/	60	17	---	---	---	---	---	---	---	---
Of which:										
exempt from IET 2/			110 3/	20	52	10	14	3	9	130
subject to IET			---	15	95	9	---	42	14	---
Other Countries, Total	722	656	141	1,027	1,058	1,191	1,605	1,659	1,645	1,327
Canada	458	608	85	700	709	922	1,007	949	1,270	776
Latin America 4/	119	13	23	208	36	68	140	144	32	120
Other Countries	61	35	33	115	134	121	212	176	179	190
International Institutions	84	---	---	4	179	80	246	390	164	241

* Not seasonally adjusted.
1/ Australia, New Zealand, South Africa.
2/ Related to the export, the direct investment, and the Japanese exemptions.
3/ Represents commitments made prior to 7/18/63, the date of inception of the IET.
4/ Includes Inter-American Development Bank issues.

Source: Department of Commerce, Office of Business Economics.

U.S. Department of Treasury
February 16, 1971

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Source: Department of Commerce, Office of Business Economics.

U.S. Department of Treasury
February 16, 1971

	1962	1963 First Half*	1963 Second Half*	1964	1965	1966	1967	1968	1969	1970
All Areas	-96	-151	102	194	225	300	-135	-61	-305	186
IET Countries, Total	15	- 85	85	181	234	222	-111	- 3	-285	n.a.
U.K.	31	17	23	49	9	- 7	- 71	-54	-173	n.a.
West Europe	-47	- 69	31	103	110	156	- 25	21	263	n.a.
Japan	-23	- 25	- 4	---	6	10	- 5	6	-294	n.a.
Canada 3/	79	7	30	17	147	68	- 8	33	- 82	n.a.
Other 1/	-25	- 15	5	12	-38	- 5	- 2	- 9	1	n.a.
Other Countries, Total	-13	- 6	10	2	- 8	26	- 36	-75	- 51	n.a.
Latin America 2/	-25	- 3	1	-13	-13	2	- 13	-73	- 65	n.a.
Other Countries	12	- 3	9	15	5	24	- 23	- 2	14	n.a.
International Institution	-98	- 60	6	11	- 3	51	13	15	31	n.a.

* Not seasonally adjusted.
1/ Australia, New Zealand, South Africa.
2/ Includes Latin American Development Bank issue of $145 million in 1964.
3/ Excludes Canadian repurchases, undertaken in '66, '67 and '68 for reserve management purposes.
NOTE: These data reflect residence of seller rather than the original country of issue of the security - the basis on which the IET applies. Also, the above data show net purchases (or sales) whereas the IET applies to gross purchases.

SOURCE: Department of Commerce, Office of Business Economics.

U.S. Department of Treasury
February 16, 1971

artment of the TREASURY

N. D.C. 20220 TELEPHONE W04-2041

NEWS

RELEASE ON DELIVERY

STATEMENT BY THE HONORABLE JOHN B. CONNALLY
SECRETARY OF THE TREASURY
BEFORE
THE HOUSE COMMITTEE ON BANKING AND CURRENCY
ON H.R. 4246
TUESDAY, FEBRUARY 23, 1971, AT 10:00 A. M.

Chairman and Members of the Committee:

I am pleased to appear before you today in support of ₹. 4246, introduced by you and sixteen other members of the mittee. The legislation would extend until March 31, 1973, tain temporary interest-rate control powers exercised by Federal banking agencies. It would also continue the hority for the President to etablish mandatory controls r prices, rents, wages, and salaries at levels not less n those prevailing on May 25, 1970.

Mr. Chairman, we recommend enactment of your bill without endment.

The temporary powers over interest rates paid by banks and ings and loan associations, originally enacted in tember 1966, have served a useful purpose. They are admittedly op-gap" in nature, and do little to solve the fundamental blem of competitive equality among thrift institutions. Nor they be administered in such manner as to insulate banks and ings and loan associations from the impact of disintermediation a tight money period.

We believe, however, that a two-year extension of the hority makes sense. A Presidential Commission on Financial ucture and Regulation, which is scheduled to report before end of this year, is intensively studying the interest-e control problem. If the temporary authority is extended two years, sufficient time will be available to permit eipt of the Commission's report, followed by enactment of tever legislation may be necessary to deal with the damental problem.

In addition, a lapsing of the temporary authority would bring the permanent, underlying statute into effect. This statute provides for inequitable rate regulation, since it applies to banks and not to savings and loan associations.

For these reasons, therefore, we support a simple, two-year extension of the interest rate authority.

We also accept section 2 of H.R. 4246, which extends the President's standby authority to set up wage-price controls. I must point out, however, that we do not believe that a network of general wage-price controls is needed at this time, nor do we believe that the American people would long stand for such regimentation, under present circumstances.

Consequently, in accepting this section, we do so with the advance statement that we do not contemplate any circumstances -- short of an all out national emergency -- in which the President would establish general wage-price controls without a further specific mandate from the Congress. This would provide evidence that a majority of the people favored such controls and would support ~~these~~ them.

I shall be pleased to respond to your questions.

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artment of the TREASURY

N, D.C. 20220 TELEPHONE W04-2041

NEWS

MMEDIATE RELEASE February 23, 1971

TREASURY'S WEEKLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders
wo series of Treasury bills to the aggregate amount of
0,000,000, or thereabouts, for cash and in exchange for Treasury
maturing March 4, 1971, in the amount of $3,303,790,000,
llows:

91 -day bills (to maturity date) to be issued March 4, 1971,
e amount of $1,900,000,000, or thereabouts, representing an
ional amount of bills dated December 3,1970, and to mature
3, 1971 (CUSIP No.912793 KL9) originally issued in
mount of $1,398,610,000 (an additional amount of approximately
000,000 will be issued on February 26), the additional and
nal bills to be freely interchangeable.

32 - day bills, for $ 1,400,000,000, or thereabouts, to be dated
4, 1971, and to mature September 2, 1971
' No. 912793 LG9).

'he bills of both series will be issued on a discount basis under
itive and noncompetive bidding as hereinafter provided, and at
ty their face amount will be payable without interest. They will
ued in bearer form only, and in denominations of $10,000,
0, $50,000, $100,000, $500,000 and $1,000,000 (maturity value).

'enders will be received at Federal Reserve Banks and Branches up
closing hour, one-thirty p.m., Eastern Standard
Monday, March 1, 1971. Tenders will not be received
Treasury Department, Washington. Each tender must be for a
m of $10,000. Tenders over $10,000 must be in multiples of
. In the case of competitive tenders the price offered must be
sed on the basis of 100, with not more than three decimals,
99.925. Fractions may not be used. It is urged that tenders be
n the printed forms and forwarded in the special envelopes which
e supplied by Federal Reserve Banks or Branches on application
or.

anking institutions generally may submit tenders for account of
ers provided the names of the customers are set forth in such
s. 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 accompan 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 decimal of accepted competitive bids for the respective issues. Settlement fo accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on March 4, 1971, in cash or other immediately available funds or in a like face amount Treasury bills maturing March 4, 1971. Cash and exchange tende 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 pa for the bills, whether on original issue or on subsequent purchase, a 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 this notice, prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained fro any Federal Reserve Bank or Branch.

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R RELEASE UPON DELIVERY

STATEMENT BY THE HONORABLE JOHN B. CONNALLY
SECRETARY OF THE TREASURY
BEFORE THE HOUSE COMMITTEE ON APPROPRIATIONS
WEDNESDAY, FEBRUARY 24, 1971, AT 1:30 P. M.

Mr. Chairman and members of the Committee, I am pleased appear before you today to discuss Treasury operations as lated to the budget, with particular reference to our revenue timates.

The table appended to my statement presents the revenue de of the Federal Budget in considerable detail, but I will uch on a few of the highlights. Unified budget receipts in scal 1972 are estimated at $217.6 billion, an increase of 3.8 billion over fiscal 1971. (Federal fund receipts -- cluding trust fund operations -- are estimated at $153.7 llion in fiscal 1972, an increase of $14.6 billion over 1971) ese estimates are based on the expectation that the GNP in lendar 1971 will total $1065 billion, an increase of $88 llion over calendar 1970. This contrasts with a GNP increase $45 billion in calendar 1970 over 1969. Corporate profits fore tax in 1971 are estimated to be $98 billion - an increase $16 billion over 1970.

The rise in budget receipts from fiscal year 1971 to 1972 ll result mainly from the growth in economic activity expected the next year and a half. The changes in tax receipts also flect administrative and legislative actions. The adminis-ative change accelerating payments of the individual income x, the social security tax, and excise tax payments adds 2 billion in receipts in fiscal 1971. This one-shot gain 1971 is not repeated in 1972. It should be noted that the celeration of these taxes did not add to tax liabilities but rely shortened the pipeline time in the payment reaching e Treasury.

A second administrative change is the depreciation reform cently announced by the President. This reduces receipts by 7 billion in fiscal 1971 and by $2.7 billion in 1972. New

legislation proposed in the Budget will increase 1972 total receipts over 1971 by $2.8 billion. Almost all of this comes from the proposed increase in the social security tax base from $7,800 to $9,000 effective January 1, 1971, which is reflected only in the unified budget.

Although the projected Federal Budget will require somewhat less borrowing in fiscal 1972 as compared with the current year, we will require an increase in the debt limit. In adjusting the debt limit I hope the Congress will grant an increase which will be adequate to meet our needs at least through fiscal 1972.

In meeting our borrowing needs we are looking forward to more favorable market conditions in the coming year than we have enjoyed for a number of years. In this context it would be in the public interest if we could do some financing in the long term area where the 4-1/4 percent statutory ceiling has blocked the issuance of any new obligations since 1965.

I have urged the Congress to remove this archaic restriction, and I am pleased to report that yesterday the House Ways and Means Committee voted some relaxation of the ceiling.

I shall be pleased to respond to your questions.

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Budget Receipts
Under Legislation Proposed in Fiscal 1972 Budget Document
Fiscal years. In billions of dollars.

:egory	Actual 1970	Estimated 1971	Estimated 1972
lividual income tax	90.4	88.3	93.7
·poration income tax	32.8	30.1	36.7
)loyment taxes and contributions	39.1	42.3	50.2
›mployment insurance	3.5	3.6	4.2
ıtributions for other insurance ınd retirement	2.7	3.1	3.2
:ise taxes	15.7	16.8	17.5
:ate and gift taxes	3.6	3.7	5.3
;toms duties	2.4	2.5	2.7
;cellaneous receipts	3.4	3.8	4.1
Jnified budget receipts	193.7	194.2	217.6
luct:			
Γrust funds, etc.	50.6	55.1	63.8
Federal funds receipts	143.2	139.1	153.7

Underlying Economic Assumptions - Calendar Years

	1969	1970	1971
?	931	977	1065
:sonal income	749	801	868
:porate profits before tax	91	82	98

:ice of the Secretary of the Treasury
)ffice of Tax Analysis

:e: Figures do not necessarily add to totals due to rounding.

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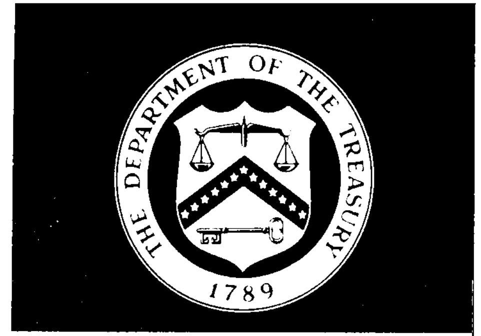

N: FINANCIAL EDITOR

ASE 6:30 P.M., EST

, February 23, 1971

RESULTS OF TREASURY'S MONTHLY BILL OFFERING

Treasury Department announced that the tenders for two series of Treasury
ne series to be an additional issue of the bills dated November 30, 1970 , and
r series to be dated February 28, 1971 , which were offered on February 17, 1971,
ned at the Federal Reserve Banks today. Tenders were invited for $500,000,000
abouts, of 274-day bills and for $1,200,000,000 or thereabouts, of 366 -day
The details of the two series are as follows:

ACCEPTED 'IVE BIDS:	274-day Treasury bills maturing November 30, 1971		366-day Treasury bills maturing February 29, 1972	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv. Annual Rate
h	97.214 a/	3.660%	96.299 b/	3.640%
	97.184	3.700%	96.243	3.695%
rage	97.191	3.691% 1/	96.264	3.675% 1/

cepting 2 tenders totaling $500,000; b/ Excepting 1 tender of $50,000
of the amount of 274-day bills bid for at the low price was accepted
of the amount of 366-day bills bid for at the low price was accepted

NDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

ct	Applied For	Accepted	Applied For	Accepted
	$ 170,000	$ 170,000	$ 21,090,000	$ 20,790,000
rk	1,152,655,000	347,475,000	1,621,950,000	875,750,000
elphia	915,000	915,000	610,000	610,000
and	15,660,000	10,210,000	44,925,000	29,925,000
nd	3,275,000	1,275,000	11,290,000	4,290,000
a	14,345,000	6,345,000	17,215,000	5,215,000
o	105,935,000	81,935,000	259,190,000	169,170,000
uis	16,415,000	7,415,000	22,905,000	11,235,000
polis	19,790,000	2,700,000	24,595,000	4,585,000
City	7,130,000	2,130,000	6,835,000	1,835,000
	24,120,000	3,440,000	24,030,000	1,530,000
ancisco	81,400,000	37,130,000	138,790,000	75,100,000
TOTALS	$1,441,810,000	$501,140,000 c/	$2,193,425,000	$1,200,035,000 d/

les $17,480,000 noncompetitive tenders accepted at the average price of 97.191
les $26,145,000 noncompetitive tenders accepted at the average price of 96.264
rates are on a bank discount basis. The equivalent coupon issue yields are
for the 274-day bills, and 3.84% for the 366-day bills.

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V, D.C. 20220 TELEPHONE W04-2041
NEWS

FOR IMMEDIATE RELEASE February 24, 1971

TREASURY SECRETARY CONNALLY NAMES CHARLES D. MAYNARD AS NEW STATE SAVINGS BONDS CHAIRMAN FOR ARKANSAS

Charles D. Maynard, Manager of Industrial Development, rkansas Louisiana Gas Co. (Arkla), Little Rock, is appointed olunteer State Chairman for the U. S. Savings Bonds Program n Arkansas by Secretary of the Treasury John B. Connally, ffective immediately.

He succeeds the late W. W. Campbell, Chairman of the oard, First National Bank of Eastern Arkansas, Forrest City, ho had served as State Chairman since August 1941.

Maynard will head a committee of State business, financial, abor, media, and government leaders which -- working with the , S. Savings Bonds Division -- assists in promoting the sales f Savings Bonds.

At Arkla he is responsible for industrial development hroughout the five-state area served by the company. He s also involved in corporate planning, public affairs, and s an adviser to the Chairman of the Board on subsidiary perations.

Before joining Arkla in 1965, Maynard -- then a colonel -- as District Engineer, Little Rock District, U. S. Army Corps f Engineers. During the three years he held this post, he as responsible for planning, design, and construction of the rkansas River Navigation Project.

Maynard is a Registered Professional Engineer in Arkansas. e is on the Executive Board of Water Resources Associated of merica and is Vice President of the Pulaski County Flood ssociation.

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He is first Vice President of the Little Rock Chamber of Commerce. In 1970 he was Vice Chairman of a "Blue Panel" Committee of 100, appointed by the Arkansas Legislature to study tax equities for the state. He is a Director, Arkansas Chapter, National Conference of Christians and Jews, Director at Large, Arkansas Basin Association, and Chairman, President's Council, Subiaco Academy.

The Fort Sill, Okla., native was graduated from the U. S. Military Academy at West Point in 1941 with a B. S. Degree in Civil Engineering. He received Master's Degrees in Engineering from Harvard University, Cambridge, Mass.; in Mathematics from Rensselaer Polytechnic Institute, Troy, N.Y., and in International Affairs from George Washington University, Washington, D. C.

He and his wife, the former Angela Jane Curry, have four children -- Angela Jane, Charles D., Jr., Elyse T., and Thomas C. The Maynards reside in Little Rock.

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NEWS

)R IMMEDIATE RELEASE February 24, 1971

TREASURY SECRETARY CONNALLY NAMES WILLIAM H. KENDALL
AS NEW STATE SAVINGS BONDS CHAIRMAN FOR KENTUCKY

William H. Kendall, President, Louisville & Nashville ailroad Co. (L&N), Louisville, is appointed volunteer tate Chairman for the U. S. Savings Bonds Program in entucky by Secretary of the Treasury John B. Connally, ffective immediately.

He succeeds Albert M. Brinkley, Jr., former Chairman f the Board, Citizens Fidelity Bank & Trust Co., Louisville, ho had served as State Chairman since January 1967.

Kendall will head a committee of State business, financial, abor, media, and government leaders which -- working with the . S. Savings Bonds Division -- assists in promoting the sales f Savings Bonds.

Kendall was elected President of L&N in April 1959, aving served as Vice President and General Manager since anuary 1957. He was appointed to the Board of Directors in ctober 1957.

His career began in 1933 with the Pennsylvania Railroad, nd he moved to positions of increasing responsibility with hat company, the Atlantic Coast Line and Seaboard Coast Line ailroads, through the years, until he joined L&N as Assistant o the President in December 1954.

He is a director of the A&WP Rail Road, Western Railway f Alabama, Association of American Railroads, Association of outheastern Railroads, Transportation Association of America, itizens Fidelity Bank & Trust Co., Louisville; Third National ank of Nashville, Tenn.; Commonwealth Life Insurance Co., ercules Inc., Hillerich and Bradsby Co., and is a member of he Executive Committees of both the Clinchfield and the eorgia Railroads.

Kendall is on the Board of Directors, Methodist Evangelical Hospital and the Louisville Automobile Club and is a member of the Board of Overseers, University of Louisville.

In 1965, he served as a member of the U. S. Industrial Payroll Savings Committee. He was Chairman of the U. S. Savings Bonds Committee of the Louisville Chamber of Commerce in 1964.

The Sommerville, Mass., native is a graduate of the Thayer School of Engineering, Dartmouth College, Hanover, N. H.

He and Mrs. Kendall, the former Lucile Hayworth of Bristol, Va., have two children -- Roberta Ann (Mrs. Douglas Woodward), and William Thomas.

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Department of the TREASURY

NGTON, D.C. 20220 TELEPHONE W04-2041

NEWS

December 9, 1970

)R IMMEDIATE RELEASE

Mrs. Mary Brooks, Director of the Mint, today issued the llowing statement after the House-Senate Conferees' approval of the)inage amendments authorizing the Mint to produce Eisenhower dollar)ins in silver and in cupro-nickel, and half-dollars in cupro-nickel:

It is too early for the public to start ordering the new Eisenhower lver dollars, although yesterday's Congressional action brings the date r minting these coins much closer. Both the Senate and House still must ve final approval, and then the bill must go to President Nixon for gnature before the Mint can finalize plans for distribution. Mrs. Brooks lded that these plans will assure the widest possible distribution of these)ins.

Any orders received prior to approval of the legislation and the int's announcement of ordering plans, will be returned to the sender romptly, Mrs. Brooks emphasized.

The coinage legislation, which was attached to the One-Bank-Holding ompany Act, will also authorize the production of cupro-nickel dollar ld half-dollar coins for general circulation, and for the one-time special lle by the General Services Administration of 2.9 million rare silver)llars which have been held in the Treasury for many years.

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'artment of the TREASURY NEWS

N. D.C. 20220 TELEPHONE W04-2041

FOR RELEASE UPON DELIVERY

REMARKS OF ROBERT T. COLE
INTERNATIONAL TAX COUNSEL
UNITED STATES TREASURY DEPARTMENT
BEFORE THE
34TH MID-AMERICA WORLD TRADE CONFERENCE
LaSALLE HOTEL, CHICAGO, ILLINOIS
WEDNESDAY, FEBRUARY 24, 1971, 9:00 A.M. CST

SIMPLIFYING THE OPERATION OF SECTION 367 OF THE INTERNAL REVENUE CODE

It is indeed an honor for me to participate in this Illinois State Bar Association Session of the Mid-America World Trade Conference.

I am especially delighted to be in Chicago. I have fond memories of visiting my law school roommate, who lived in a nearby town, Fox River Grove, and becoming acquainted with your city and your countryside.

It is important, I feel, for government officials to get out of Washington and to meet with the people in every part of the country who are affected by the laws they are developing and administering. In the case of the taxation of foreign source income, the "constituency" may be relatively small. But wherever taxpayers with foreign income exist, those of us doing international work at the Treasury would like to meet with them and discuss problems of mutual interest.

Since this Administration took office two years ago there has been a great deal of work done to improve our tax system, much of it embodied in the Tax Reform Act of 1969, and the detailed regulations being issued. Most of the focus has been on the taxation of domestic source income. Some of the changes, however, have been in the foreign area such as the addition of a provision dealing with continental shelf; a limitation on the foreign tax credit with respect to mineral income; the extension from 1972 to 1975 of the exemption for interest paid by U. S. banks to foreigners; and the extension of the foreign tax credit to taxes paid by third-tier foreign subsidiaries.

But we are considering much more in the foreign area. The keynote for the Administration was set by Assistant Secretary Cohen in November 1969 at the 56th National Foreign Trade Convention in New York. I would commend that speech to you for an overall indication of our directions.

That speech included the first public announcement of the Treasury proposal for the DISC which, as you know, would permit U. S. exporters to defer U. S. tax on export income in much the same way that deferral can now be achieved through the use of foreign subsidiaries. The DISC proposal was passed by the House as part of the Trade bill in the 91st Congress, but DISC was put aside by the Senate Finance

Committee for further consideration this year. The Trade bill has been reintroduced by Representatives Mills and Byrnes and others as H. R. 20 in this session and again includes the DISC. It is important to note that in his confirmation hearings, Secretary Connally expressed strong support for DISC. We would hope that Congress will enact the proposal in this session.

We have also been working on the other subjects referred to by Assistant Secretary Cohen. As he indicated, one of our important themes has been simplification of what is probably the most complex part of the Internal Revenue Code -- the provisions for the taxation of foreign source income.

High on the list for simplification are the rules for the formation, reorganization and liquidation of foreign corporations on a tax-free basis. In order for such transactions to be tax free a determination must be obtained from the Internal Revenue Service in advance of the transaction, that a principal purpose is not the avoidance of Federal income taxes. Under current practice, the only way to obtain such a determination is to obtain a ruling. The applicable provisions of the Internal Revenue Code is section 367.

The transactions covered by section 367 are often complex and they can take many forms. It will not be easy to achieve simplification. I am convinced nevertheless that much can be done to achieve simplification while at the same

time preserving the purpose of section 367 to prevent tax avoidance through the use of foreign corporations.

My purpose this morning is to indicate in a general way my views on possible directions for change in section 367 and related provisions with the hope that those affected will let us know if the directions make sense to them and would indeed simplify their task of complying with our tax laws.

A big step in this area was taken in 1966 and 1968 with the publication by the Internal Revenue Service of tentative and final guidelines which would thereafter be followed by the Internal Revenue Service in passing on requests for rulings under section 367. Before that time there had been much uncertainty as to the requirements for a favorable ruling. In other words, before the publication of the guidelines it was difficult to know what the Service regarded as a principal purpose to avoid Federal income taxes.

In many types of transactions the concept of tax avoidance has been derived from section 1248 of the Code which was added by the Revenue Act of 1962. In general, section 1248 provides that upon a taxable disposition or liquidation of a controlled foreign corporation (a foreign corporation with more than 50% direct or indirect ownership by U. S. shareholders), the gain of U. S. shareholders (limited to U. S. persons with at least a 10% interest in the voting stock) is taxed at ordinary rates, as if they received a dividend, to the extent of the post-1962 earnings and profits. Many of the rules in

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e guidelines under section 367 are designed to assure at this tax is not avoided. In other cases the tax oidance focus of the guidelines is the U. S. tax on the preciation of property which a taxpayer wants to transfer to foreign corporation.

While the guidelines have been of considerable help taxpayers, a number of difficulties are still encountered, incipally the following:

--In a number of cases the requirement that the ruling be secured in advance has caused problems. Even though the Income Tax Division has been able to reduce the time required in obtaining a ruling, there are cases where the desire of the taxpayer to proceed rapidly cannot be fully accommodated by the rapid issuance of a favorable ruling.

--In other cases, transactions subject to section 367 have been consummated in ignorance of the advance ruling requirement. The Tax Court has held that the Commissioner does not have legal authority to issue a ruling once the transaction has taken place. One such instance recently led Congress to provide retroactively that a ruling with respect to a narrow class of reorganizations could be obtained after the transaction. However, there will undoubtedly be other cases in the

future where the taxpayer will have inadevertently failed to obtain the ruling and will seek legislative redress.

--In many cases the result is clearly enunciated in the guidelines. For example, the guidelines provide that certain transactions will be treated as tax free and certain other transactions will be treated as partially tax free. However, an advance ruling is required even though a favorable ruling is virtually automatic. In some cases where the guidelines provide for the nonrecognition of income, which under section 1248 is taxable as a dividend, the Service has felt it necessary to also enter into a closing agreement with the taxpayer to assure the eventual collection of tax at the rate applicable to dividends. Where the tax effects of a transaction are settled, there does not seem to be any reason to continue these complex procedures.

--Some transactions take place entirely outside of the United States. The corporations involved are not subject to U. S. tax and there is no exchange of stock or securities by U. S. shareholders. In such cases there is no immediate U.S. tax liability. However, because the earnings and profits (under U. S. concepts) of foreign corporations affect the amount of foreign tax credit, and the classification of a transaction as

taxable or tax free affects earnings and profits, it is necessary to determine the classification. It is the present view of the Service that tax-free classification requires an advance ruling under section 367. In my view every effort should be made to eliminate the need for a ruling for such transactions.

--One practical effect of the requirement in section 367 that the determination be obtained in advance has been that taxpayers have not been able to litigate the denial of a favorable ruling. The tendency of taxpayers seeking to obtain rulings has been to shape transactions to the requirements of the Internal Revenue Service or abandon transactions, even when they feel that the transactions originally planned should have resulted in favorable rulings. It is possible that if a court found that a favorable ruling has been unreasonably denied it would order the Commissioner to issue a favorable ruling. Another possibility would be for a court to hold that the effects of a transaction are to be determined as if a favorable ruling had been issued prior to the transaction. But it is also possible that the courts would deny both types of relief on jurisdictional grounds. In any event,

no taxpayer has sought judicial relief along these lines in the 39 years since the enactment of section 367. Should the law be amended to facilitate appeals of taxpayers to the courts? On the one hand it is argued that the Internal Revenue Service has much experience with transactions subject to section 367 and that enlightened administration exists or can be achieved and there is no need to have the courts involved in the determination of a tax avoidance purpose under section 367. On the other hand, it is argued that the restraints of judicial review are important and that such restraints should be present in the determination of the tax effects of foreign transactions.

In order to deal with these problems, I would offer for your consideration changes of two basic types:

First, narrowing the requirement for rulings under section 367 and providing for the tax effects of various transactions by statute or regulation and thereby eliminating the requirement for a ruling.

Second, providing in an amendment to the Internal Revenue Code, that in those cases where a section 367 ruling remains necessary, the ruling can be obtained after the transaction as well as before.

Removing Transactions from the Requirement of a Ruling Under Section 367

In removing transactions from the requirement of a section 367 ruling, some transactions could be made partially taxable in all cases and other transactions could automatically be treated as tax free.

1. Transactions Partially Taxable in All Cases

The Internal Revenue Code (section 332) provides that the complete liquidation of a domestic subsidiary into its domestic parent corporation is tax free if the parent owns at least 80 percent of the stock of the subsidiary. Tax-free treatment in such a case meshes with the provision which provides that dividends received by a U. S. corporation from an 80-percent-owned domestic subsidiary may, by a proper election, be fully excluded from the income of the parent so that there is only one tax at the corporate level.

In the case of a foreign subsidiary of a U. S. parent corporation, the approach of our law is different. The foreign subsidiary is ordinarily not subject to U. S. income tax. Our law provides that upon the payment of a dividend by the subsidiary to the parent, U. S. tax is imposed on the parent. The tax is the difference between full U. S. tax on the dividend and the sum of the foreign tax paid by the subsidiary and the foreign withholding tax applicable to the dividend.

The guidelines provide rules for the liquidation of a foreign subsidiary into a domestic parent which are designed

to achieve the same result. Thus, a favorable ruling will be granted subject to a "toll charge". A favorable ruling will be given only if the parent agrees to include in its gross income as a dividend the portion of the accumulated profits of the foreign corporation attributable to the parent's stock in the foreign corporation. It should be noted that a similar result is also achieved if the parent sells the stock of the subsidiary. As I indicated, section 1248 provides, in general, that the portion of the gain equal to the earnings and profits of the foreign subsidiary, accumulated since 1962, and attributable to the stock sold is taxed as a dividend rather than as a long-term capital gain.

Since the amount of tax payable on the liquidation of a foreign subsidiary is now well established, there does not seem to be any further need for a ruling procedure. Rather, the tax liability could be generally provided for along the lines of section 1248.

2. Transactions Always Treated as Tax Free

I mentioned earlier that a recent retroactive amendment to section 367 was made to deal with the case of a taxpayer who had inadvertently failed to obtain an advance ruling for a transaction with respect to which the Service would have granted a favorable ruling if asked. It would appear that if a favorable ruling is to be granted without the

imposition of a "toll charge" in any event, the transaction should be automatically treated as tax free without requiring a ruling.

I will now discuss the more important of these transactions.

a. Section 351 Transactions.

The most important type of transactions covered by section 367, as measured by the number of ruling requests received, is the transfer of property by a U. S. taxpayer to a foreign corporation in exchange for stock or securities of the foreign corporation where the transferor, either alone or with other transferors, owns after the transfer at least 80 percent of the stock of the foreign corporation. If a similar transfer is made by a U. S. person to a domestic corporation, section 351 of the Code provides there is generally no tax imposed on the receipt of the stock or securities.

In the case of such a transfer to a foreign corporation, tax is imposed on the difference between the basis of the property transferred and the fair market value of the stock and securities received, unless a favorable ruling has been obtained under section 367. The guidelines generally provide for a favorable ruling if the property transferred is to be devoted by the foreign corporation to the active conduct, in any foreign country, of a trade or business and the

foreign corporation will have need for a substantial investment in fixed assets or the foreign corporation will be engaged in the purchase and sale of manufactured goods. I will refer to all of these requirements as the "substantial business use test". However, certain types of property divided into two classes are singled out for special treatment. The first class consists of inventory, accounts and notes receivable which have not previously been included in income, stock or securities (with certain exceptions) and property likely to be disposed of by the foreign corporation. Property in this first class will not be covered by a favorable ruling unless the Service determines that the facts and circumstances justify a departure from the guidelines. The second class includes property which is subject to a lease or license at the time of the transfer; property that is likely to be leased or licensed by the transferee after the transfer; and certain patents, trademarks, and similar intangibles to be used in the United States, or in connection with U. S. exports or imports. The guidelines are somewhat more flexible as to this class and provide that such property will not "ordinarily" be covered by a favorable ruling.

In transactions where a taxpayer transfers property which is in these special categories along with property

which is not, the guidelines provide that if the transferor agrees to include in his gross income an amount to reflect the realization of income or gain in respect of assets which would be excluded from a favorable ruling, the ruling will be issued with respect to the other property transferred, assuming that the substantial business use test has been satisfied.

Now that the Service has developed these classifications in the guidelines, it may be possible to build on this experience. Thus, it could be provided generally, rather than by ruling, that property which is not within either of the special classes can be transferred to a foreign corporation under section 351 if the substantial business use test has been met. The only additional requirement which I would add would be for special notice of the transfer to be provided in the taxpayer's return. The purpose of the special notice would be to facilitate the careful scrutiny of the transaction by the Service so that it can verify that the requirements were indeed satisfied. For example, the Service could make sure that there was no purpose for the foreign corporation to dispose of the property transferred and that the intangibles transferred were for the use in the foreign corporation's business and were not for use in connection with U. S. exports and imports. It has been the experience of the Service that

these types of situations could involve substantial tax avoidance. In order to assure that taxpayers file the special notice, it may be necessary to provide that section 351 will not apply to any of the property transferred in the absence of a timely filing of the notice.

Even though an advance ruling would not be required, if a taxpayer desired assurance as to the classification of particular types of property or as to whether the substantial business use test had been met, he could still apply for a ruling before the transfer. Indeed it may be assumed, on the basis of experience in the domestic area, that many taxpayers would avail themselves of this opportunity.

As to property in the two special classes, the transaction would be taxable unless a favorable ruling under section 367 is obtained. The failure to obtain a ruling with respect to such property would not vitiate the tax-free nature of a transfer of other property when the requirements for such a transfer are met.

While the starting point for the classification of property would be that now used in the guidelines, our concepts of tax avoidance in section 351 transactions may evolve and it may be desired to make changes from time to time. This could be done conveniently if the classifications are set forth in regulations.

b. Exchange of Stock in a Foreign Corporation Which Is Not A Controlled Foreign Corporation.

There are two other types of transactions as to which favorable rulings are now generally available under the guidelines and which I believe can be generally provided for without the requirement of an advance ruling. The first of these involves an exchange of stock or securities in a foreign corporation which is not a controlled foreign corporation by a U. S. taxpayer in a reorganization. The acquiring corporation, the stock or securities of which the taxpayer would receive in the exchange, might be foreign or domestic. Except in special situations, the standard for tax avoidance where stock or securities are exchanged for stock or securities is provided by section 1248. Since section 1248 applies only where the foreign corporation is a controlled foreign corporation, there is no potential for avoidance of the ordinary income treatment of that section. Thus, it would appear that tax-free treatment can be provided for generally.

One example of a special situation, where tax-free treatment would not be automatic, would be where the acquiring corporation is foreign and is controlled by the U. S. stockholders of the acquired corporation. In such a case

the U. S. stockholders could cause the stock of the acquired corporation to be sold without any immediate U.S. tax on the capital gain. Since the disposal of appreciated stock without a U. S. tax is the type of transaction which led to the enactment of section 367, I believe the Service should examine these control cases in a ruling context. A definition of control should be developed in order to avoid uncertainty.

c. Transactions with No Immediate U. S. Tax Liability.

Another class of transactions which can be made tax free without a ruling involves the formation, reorganization, or liquidation of only foreign corporations, where none of the corporations are engaged in trade or business in the United States and no stock or other property is exchanged by U. S. persons. For example, a foreign corporation which owns all of the stock of a second corporation might liquidate the second corporation. Treating the liquidation as taxable would reduce the foreign tax credit on dividends paid by the first-tier corporation. It seems to me that there is no reason to require a section 367 ruling for such a liquidation to be regarded as tax free since the earnings and profits of the second corporation are taken into account in applying section 1248 after the liquidation. Where a foreign corporation operating in a developed country and a less developed country corporation are involved in the

transaction, a question might be raised as to the application of the special less developed country corporation rules for earnings of past years.

Even where there is an immediate U. S. tax consequence by reason of the subpart F provisions, consideration should be given to providing for tax-free treatment without a ruling under section 367.

Preserving Ordinary Income Treatment under Section 1248

I have indicated that if, in a reorganization, a U. S. shareholder exchanges stock in a foreign corporation which is not a controlled foreign corporation, the exchange can ordinarily be tax free. The reason for this is that there is no question of ordinary income treatment under section 1248. Section 1248 applies only where the foreign corporation is a controlled foreign corporation.

Where the stock of a controlled foreign corporation is involved, there is generally no tax avoidance potential as long as the ordinary income treatment of section 1248 is preserved, and, as I discussed in connection with totally tax-free transactions, the transfer is not used for the removal of appreciated securities from the U. S. taxing jurisdiction. For example, assume that all of the stock of a controlled foreign corporation is exchanged by a U. S. shareholder for the stock of a domestic corporation in a "B" reorganization. In such a case the controlled foreign corporation continues as a controlled foreign corporation of the acquiring domestic corporation. In computing the amount taxable as a dividend under section 1248, the earnings and profits of the controlled foreign corporation include the earnings and profits accumulated while it was owned by its former shareholder. Therefore, the guidelines provide for a favorable ruling in such a case.

There are, however, a number of cases as to which current law does not or may not preserve the ordinary income treatment for past earnings and profits. These include the following types of reorganizations:

1. The acquisition of the assets of a controlled foreign corporation by a second controlled foreign corporation.

2. The acquisition of the assets of a controlled foreign corporation by a domestic corporation or by a foreign corporation which is not a controlled foreign corporation.

3. The acquisition of stock of a controlled foreign corporation so that after the reorganization the foreign corporation is no longer a controlled foreign corporation or where after the reorganization the interest of U.S. shareholders in the acquired corporation is diminished.

With respect to the first case (the acquisition of the assets of a controlled foreign corporation by a second controlled foreign corporation in a reorganization), the Service has announced that the regulations under section 1248 will be modified so that the earnings and profits of the acquired corporation will carry over as earnings and profits of the acquiring corporation for purposes of section 1248. When this is done any tax avoidance potential will disappear. In the meantime,

the Service conditions the issuance of a favorable ruling on the payment of tax on the gain which would be trea as a dividend by section 1248. The Service does permit, how ever, by means of a closing agreement, the deferral of this tax until the disposition of the shares of the acquired corporation or upon the occurrence of other specified events. Once it is assured that the earnings and profits of the acquired corporation will be carried over for purposes of section 1248, there will no longer be a need for an advance ruling in this situation.

The other cases which I have referred to (in which sectio 1248 attributes are not carried over) involve basically a controlled foreign corporation losing its status as such. One approach would be to require that the former stockholders of the controlled foreign corporation must pay tax on that part of the gain which section 1248 would treat as a dividend at the time of the reorganization. This solution is unsatis- factory, in my view, as it denies the deferral privilege of the reorganization provisions merely because a foreign corpo tion is involved. Every effort should be made to develop rules which would at the same time permit such deferral and preserve the ordinary income treatment provided by section 1248. This could be done by "tainting" the stock received in the reorgani zation by the former stockholders of the controlled foreign corporation so that ordinary income treatment would apply on its taxable disposition.

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While the "taint" approach is most consistent with the ιes of the Internal Revenue Code, it raises a number of ɔblems which I would like to consider carefully before pro-;ing this route. These problems include the following:

1. Difficulty in identifying the "tainted" stock in later ars when such stock is disposed of, especially where the stock that of a domestic corporation or a foreign corporation which not a controlled foreign corporation.

2. Where the holder of the "tainted" stock pays tax at linary rates on the earnings and profits of the acquired rporation, an adjustment should be made so that the same rnings and profits are not taxed to another U. S. taxpayer. ere is, however, a serious problem of proof and in determining e proper time to make this adjustment.

3. A similar adjustment in the foreign taxes eligible r the foreign tax credit should also be considered, but here ere is an additional complexity because of the different rules plicable to individuals and corporations receiving dividends om foreign corporations.

4. If in subsequent years one of the surviving corporations s losses, it can be argued that this should reduce the section 48 liability with respect to the "tainted" stock. Yet, such adjustment would involve considerable complexity.

If, nevertheless, a satisfactory means is found to provide r the carryover of the potential section 1248 liability, trans-tions involving a controlled foreign corporation losing its aracterization as such would be another group for automatic x free treatment.

Pre-1963 Earnings and Profits

In the case of a sale or exchange, section 1248 treats that part of the gain which is equal to the post-1962 earnings and profits of the controlled foreign corporation as a dividend, but section 1248 does not alter the character of the gain to account for the pre-1963 earnings and profits. The failure to treat the pre-1963 earnings and profits as a dividend represents a "grandfather" provision; the theory was that such earnings and profits were accumulated at a time when the entire gain on a sal or exchange could be subject to the special long term capital gains rates.

However, pre-1963 earnings and profits are treated as a dividend where the taxpayer has requested a ruling under section 367 with respect to a section 332 liquidation. As a condition of such a ruling the Service, pursuant to the guidelines, requires that pre-1963 as well as post-1962 earnings and profits be treated as a dividend by the domestic parent corporation.

As a device to encourage the repatriation of foreign earnin accumulated over the years, consideration might be given to limiting the dividend requirement, in connection with section 332 liquidations, to post-1962 earnings and profits for a period, say five years. Perhaps the encouragement to repatriation would be even greater if section 1248 provided that

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the end of this period pre-1963 earnings and profits would treated as a dividend for purposes of taxing the gain claimed n a sale or excahnge subject to section 1248.

Subsequent Rulings Under Section 367

As indicated, one of the major criticisms of section 367 been that the ruling must be obtained in advance of the nsaction. Although the changes I have discussed above would siderably narrow the need for section 367 rulings, important sses of transactions would still require a ruling. s, the requirement for a ruling in advance must be examined.

It would appear that most of the same benefits derived n the current section 367 ruling procedure can be obtained permitting the taxpayer to obtain the ruling either before after the transaction. This would give considerable xibility to taxpayers in the conduct of their affairs.

There would appear to be three principal advantages the present section 367 ruling process: Administration by a ll group of experts in the Reorganization Branch with siderable expertise in the area; the possibility for taxpayers king with the Reorganization Branch to shape their transactions advance to meet the requirements of the Internal Revenue vice; and separate notice to the Service of transactions ch might go unreviewed in the normal audit process.

It is believed that all of these benefits can be preserved with a subsequent ruling. By requiring a ruling at some time, administration will continue in the Reorganization Branch. Indeed consideration might be given to providing that the Reorganization Branch will also examine the special notices filed in the case of automatically tax free transactions removed from the ruling requirement which I have already referred to.

As to the opportunity to shape transactions in advance, most taxpayers would as a matter of caution continue to obtain a ruling in advance even though this is not required-- as is done currently in domestic practice. On the other hand, there is much to be said for permitting taxpayers to be free to proceed on their own without an advance ruling if they so desire.

As for separate notice to the Internal Revenue Service, this could be achieved by requiring taxpayers to report transactions subject to section 367 on a special form to be filed as part of the tax return. The new form could also be used for the special notice of automatically tax free transaction

Consideration might be given to providing that the ruling may be applied for either before the transaction or within three months after the due date of the return for the year in which the transaction took place. If the taxpayer fails to apply within that period, or fails to supply the necessary information the U. S. taxpayer would be required to recognize gain derived in the transaction which is subject to the ruling requirement.

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It would appear that one of the necessary results of permitting subsequent rulings is that taxpayers who fail to get such a ruling are more likely to attempt to litigate, and their procedural position would be much improved than currently. I have indicated previously the arguments for and against judicial review. My personal conclusion is that judicial review would be a welcome development, but that it should be limited to a determination of whether the Commissioner abused his discretion in denying or in only partially granting a favorable ruling under section 367. As a mechanical matter, it could be provided that a taxpayer who filed a timely application for a ruling, but failed to obtain a favorable ruling, or obtained a favorable ruling only as to certain assets, could, nevertheless, treat a transaction which is subject to the ruling requirement as completely tax free or file a claim for refund on that basis. Either approach would set the stage for a contrary determination by a Commissioner and submission to the courts.

* * *

We are now in the midst of developing a program under section 367. I have tried to share with you today some of my thinking, derived from our current work. We would very much appreciate having your thoughts on the various approaches which I have discussed today or any alternatives which may commend themselves to you. We plan to proceed rapidly and we urge you to let us have your comments within the next month.

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Department of the TREASURY

NGTON, D.C. 20220 TELEPHONE W04-2041

NEWS

FOR IMMEDIATE RELEASE February 25, 1971

UNDER SECRETARY WALKER LEADS U.S. DELEGATION TO SPECIAL MEETING OF THE BOARD OF GOVERNORS OF THE INTER-AMERICAN DEVELOPMENT BANK, BUENOS AIRES, ARGENTINA

Treasury Under Secretary Charls E. Walker will lead a United States delegation to Buenos Aires, Argentina, for a special meeting of the Board of Governors of the Inter-American Development Bank at which Mr. Antonio Ortiz Mena of Mexico will be sworn in as the new president of the Bank.

Under Secretary Walker will be the Special Representative of President Nixon and will also, as temporary Alternate Governor, represent Secretary of the Treasury John B. Connally, the U. S. Governor of the Inter-American Development Bank.

Mr. Ortiz Mena, who succeeds Felipe Herrera of Chile as president of the Bank, will assume his new office on Monday, March 1.

The delegation will depart Andrews Air Force Base, near Washington, Thursday afternoon and will stop over briefly in Curacao in route.

Among those in the official U. S. delegation, in addition to Dr. Walker, will be John R. Petty, Assistant Secretary of the Treasury for International Affairs; Henry J. Costanzo, U. S. Executive Director, Inter-American Development Bank; Reuben Sternfeld, Alternate U. S. Executive Director, Inter-American Development Bank; Daniel Szabo, Deputy Assistant Secretary, Bureau for Inter-American Affairs, Department of State; Sidney Weintraub, Deputy Assistant Secretary, Bureau for Economic Affairs, Department of State. The Honorable John Davis Lodge, U. S. Ambassador

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to Argentina, will join the delegation upon its arrival in Argentina.

Congressional advisors expected to join the official delegation include the following members of the House Banking and Currency Committee: Robert G. Stephens, Jr., Georgia; Albert W. Johnson, Pennsylvania; Tom S. Gettys, South Carolina; Jr. William Stanton, Ohio; Tom Bevill, Alabama, and Charles H. Griffin, Mississippi. Richard T. Hanna, California, also a member of the House Banking and Currency Committee, will be attending the meeting but will not be travelling with the delegation.

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

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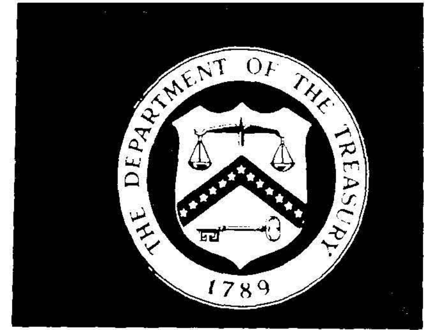

FOR RELEASE ON DELIVERY

STATEMENT BY THE HONORABLE JOHN B. CONNALLY
SECRETARY OF THE TREASURY
BEFORE THE JOINT ECONOMIC COMMITTEE
FRIDAY, FEBRUARY 26, 1971, AT 10:00 A.M., EST

Mr. Chairman and Members of the Joint Economic Committee:

It is a privilege to appear before your distinguished Committee. I would like briefly to develop and emphasize certain basic elements in the approach of the Administration toward our economic problems. The elements will provide a focus for my own efforts, and I believe they will command widespread support in the Congress and in the country.

First, with sizable pools of unemployed workers and excess capacity, the main instruments of policy are properly turned toward encouraging and facilitating economic expansion. This approach is reflected in the willingness of the President to accept a deficit in the Federal budget during the current fiscal year and prospectively in fiscal 1972. It is also reflected in complementary monetary policies by the Federal Reserve.

Plainly, budgetary deficits would not be appropriate in a period of strong demand and low unemployment. Even now, with demands slack and unemployment high, it is important that we keep Federal spending within full employment revenues. The President's budget fully respects that limitation. Moreover, I am convinced that the planned deficits, resulting essentially from the recent sluggishness of the economy, can be financed without impeding flows of funds to other uses.

Second, while seeking strong and lasting economic expansion, we must continue to deal with remaining inflationary pressures. These pressures are mostly of the "cost-push" variety, reflecting an imbalance between rising wages and other costs and productivity growth. Renewed economic expansion should, at least for a time, bring faster than average productivity increases. This will help stabilize unit costs. But, where practicable, we must also be prepared to act more directly in the interests of price stability. As you know, the Administration has been moving in a number of specific areas to reinforce the disciplines of the market.

For the longer run, the persistence and extent of inflationary pressures underscore the need to find better ways of reconciling growth with price stability. This Administration dealt forcefully and effectively with the overheating and excess demand pressures that characterized the late 1960's. By those actions, the groundwork has been laid for a better price performance, provided that renewed growth remains balanced and orderly. At the same time, we must press ahead with more specific measures that, over time, can help improve our longer-term price performance. We must not shrink from necessary actions to improve the functioning of the labor market or to reinforce competitive pressures in markets for goods and services.

Third, we must recognize that we live in an interdependent world. Our actions and our performance have an important bearing on developments abroad, and we are, of course, affected by others. Points of strain and tension in these relationships are apparent.

The plainly unsatisfactory state of our balance of payments is one of the sources of strain. We fully recognize that this position needs to be strengthened. Unchecked, the present imbalances risk eroding the stability of the international monetary system and the fabric of cooperation upon which all countries are dependent. The result would be to impede the flow of trade and investment that underlies the economic prosperity of the free world.

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We also know that there are no quick or easy answers to this problem, either for the United States as a deficit country or for the surplus countries which make up the counterpart of our deficits. What is plain is that we must carry out our own part of the responsibility for an improved structure of world payments. Most fundamentally, this requires orderly growth with price stability in the United States. Fortunately, this fundamental is consistent with our domestic objectives.

During the past year, the international monetary system has functioned well despite abnormally large movements of short-term funds in response to interest differentials. Our very large deficit on the official settlements basis mainly reflected outflows of banking funds, which reversed the inflows that had temporarily bolstered our position in the previous two years.

Coping with large swings in short-term flows may be a price that we have to pay for maintaining relative freedom of capital movements and some independence in national monetary policies in a world of convertible currencies. These swings and flows will, of course, decline to the extent that national economies can in the future move more in step with each other.

In conclusion, I am in no doubt as to the extent of the economic challenge before this country. We are embarking on a program of achieving simultaneously expansion and improved price performance. Success in those objectives will help our international financial position as well. We cannot afford to fail in this effort.

I accepted appointment as Secretary of the Treasury in the belief that we can meet these challenges and that the Treasury can play a large role in that effort. But the task is a very big one. It will engage the energies and the understanding not only of the Congress and the Executive but of American business and labor as well. I am confident that we will not be found wanting.

Department of the TREASURY

NGTON, D.C. 20220 TELEPHONE W04-2041

NEWS

FOR IMMEDIATE RELEASE

STATEMENT BY THE HONORABLE CHARLS E. WALKER
THE UNDER SECRETARY OF THE TREASURY
SPECIAL REPRESENTATIVE OF THE PRESIDENT AND
TEMPORARY ALTERNATE GOVERNOR FOR THE UNITED STATES
BEFORE
THE SPECIAL MEETING OF THE BOARD OF
GOVERNORS OF THE INTER-AMERICAN DEVELOP-
MENT BANK, BUENOS AIRES,
MARCH 1, 1971

I am pleased to be able to convey to this Special Meeting of the Board of the Governors of the Inter-American Development Bank the following message from President Nixon:

"The Board of Governors of the Inter-American Development Bank is today assembled for ceremonies of extraordinary importance in the life of a dynamic institution: the passage of leadership to new hands. It has gathered for this purpose in a great metropolis of the Hemisphere, capital of a proud American nation whose constructive role in our Hemisphere is a source of admiration.

"My thoughts and my warm wishes are with all of you at this moment of transition, so solemn and yet so full of hope

"I salute you, Dr. Antonio Ortiz-Mena, as you shoulder your new responsibilities as President of the Inter-American Development Bank. Your already distinguished career in the service of Mexican financial stability and progress now takes on new horizons in the service of all the Hemisphere.

"I salute you, Dr. Felipe Herrera, as the retiring President of the Bank, whose faithful labors are reflected today by the solid and respected institution the Bank has become under your guidance.

"And I salute the Board of Governors whose collective wisdom represents the touchstone of financial integrity and sound judgment on which a development banking institution must depend if it is to achieve lasting accomplishments.

"From its inception, the Inter-American Development Bank has symbolized my conviction that true partners share both the obligations and the benefits of cooperative endeavor. The Bank is and must increasingly be a dynamic entity, readily adapting to new realities in an ever changing world.

"The Bank's accomplishments are substantial; its potential is great. In the broad new strategy for United States development assistance that I have proposed, multilateral financial institutions such as the Bank will play an increasingly important role. Continued United States support for the Bank, and through it the broad cause of economic and social advance in the Americas, can be counted upon.

"Today a new chapter opens. Let the chapter tell of constructive action by a constructive institution, wisely led and capably manned. And let its conclusion be the realization of the progress in the Americas toward which we are striving together."

These thoughts are, of course, shared by the new United States Governor of the Bank, Secretary of the Treasury John Connally, who deeply regrets that the immediate demands of the office he has just entered made his personal attendance today impossible. I, too, share in the good wishes already extended to the new President and to the retiring President of the Bank. And I would like to add a few additional words about the broad relationship between the United States and the Bank as an institution.

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As one who is closely concerned with the legislative affairs of the U.S. Treasury, I am gratified at the presence in our delegation today of several distinguished members of Congress. Their attendance is evidence of active Congressional interest in the growth of this constructive institution that binds us together in hemispheric partnership. And I believe they reflect a growing public understanding in my country of the role multilateral institutions such as the Inter-American Development Bank can and should play in the development process.

Further evidence exists in the recent action of the Congress as a whole to support the full amount of our financial undertaking -- over $800 million -- towards the Bank's Ordinary Capital resources, as agreed last year at Punta del Este. Our Congress also provided late last year for the initial portion -- $100 million -- of our proposed contribution of $1 billion to the Fund for Special Operations. Legislation has just been introduced to obtain the balance, and I can assure you, in line with President Nixon's own pledge, of our firm intention to provide the full measure of resources called for in the Punta del Este resolutions.

As recently noted by the Inter-American Committee for the Alliance for Progress in its review of the United States, rising U. S. contributions to the Inter-American Development Bank have been a major factor permitting this country to fulfill its pledges made a decade ago for financial assistance to development in this hemisphere. This is the reality of the United States relationship with the Bank: a steadily increasing financial support, a steadily broadening reliance on the Bank for constructive yet innovative financing, and a steadily deepening engagement in the process of strengthening its capacities, improving its expertness, and broadening its horizons. Not the clamor of news releases about this loan or that, not the rumor of an attitude or an eye catching headline;but rather the reality of nearly $5 billion in resources that the United States has paid or pledged, the reality of a special concern to which we devote special effort.

The Inter-American Development Bank is emerging as one of the main crucibles in the economic field through which the United States is forging a new relationship with Latin America. It is, increasingly, the embodiment of a heightened sense of sharing and of common purpose in achieving hemispheric development goals. Its commitment must be to excellence. A Bank that demands the best in development performance is our mutual and joint responsibility. To such a Bank and to such a partnership we renew our commitment today.

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Department of the TREASURY

NGTON, D.C. 20220 TELEPHONE W04-2041

NEWS

: FINANCIAL EDITOR

SE 6:30 P.M.,

arch 1, 1971.

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

Treasury Department announced that the tenders for two series of Treasury
e series to be an additional issue of the bills dated December 3, 1970 , and
series to be dated March 4, 1971 , which were offered on February 23, 1971,
ed at the Federal Reserve Banks today. Tenders were invited for $ 1,900,000,000,
bouts, of 91-day bills and for $ 1,400,000,000, or thereabouts, of 182-day
he details of the two series are as follows:

ACCEPTED VE BIDS:	91-day Treasury bills maturing June 3, 1971		:	182-day Treasury bills maturing September 2, 1971	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
	99.166	3.299%	:	98.265	3.432%
	99.146	3.378%	:	98.239	3.483%
age	99.154	3.347% 1/	:	98.247	3.467% 1/

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

DERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

t	Applied For	Accepted	:	Applied For	Accepted
	$ 22,670,000	$ 11,220,000	:	$ 16,785,000	$ 6,785,000
k	2,315,040,000	1,418,990,000	:	2,195,345,000	1,242,045,000
lphia	35,135,000	20,135,000	:	6,240,000	6,240,000
nd	40,500,000	30,115,000	:	31,160,000	25,570,000
d	13,050,000	9,840,000	:	10,500,000	3,000,000
	47,930,000	36,835,000	:	25,160,000	7,885,000
	176,665,000	166,435,000	:	157,955,000	49,795,000
is	54,520,000	50,520,000	:	30,560,000	23,360,000
olis	35,895,000	35,045,000	:	28,670,000	12,250,000
City	28,225,000	28,225,000	:	13,135,000	7,835,000
	30,600,000	19,600,000	:	23,685,000	7,685,000
ncisco	109,600,000	73,545,000	:	119,825,000	7,985,000
OTALS	$2,909,830,000	$1,900,505,000 a/		$2,659,020,000	$1,400,435,000 b/

es $237,020,000 noncompetitive tenders accepted at the average price of 99.154
es $ 79,975,000 noncompetitive tenders accepted at the average price of 98.247
rates are on a bank discount basis. The equivalent coupon issue yields are
for the 91 -day bills, and 3.59% for the 182-day bills.

Department of the TREASURY

NGTON, D.C. 20220 TELEPHONE WO4-2041

NEWS

MEDIATE RELEASE March 2, 1971

TREASURY'S WEEKLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders :wo series of Treasury bills to the aggregate amount of 00,000,000, or thereabouts, for cash and in exchange for Treasury ; maturing March 11, 1971, in the amount of $3,306,070,000, ollows:

91 -day bills (to maturity date) to be issued March 11, 1971, ne amount of $1,900,000,000, or thereabouts, representing an tional amount of bills dated December 10,1970, and to mature 10, 1971 (CUSIP No.912793 KM7) originally issued in amount of $1,400,625,000 (an additional $200,745,000 was issued iary 26, 1971), the additional and original bills to be freely changeable.

182- day bills, for $ 1,400,000,000, or thereabouts, to be dated 11, 1971, and to mature September 9, 1971 IP No. 912793 LH7).

The bills of both series will be issued on a discount basis under titive and noncompetive bidding as hereinafter provided, and at ity their face amount will be payable without interest. They will sued in bearer form only, and in denominations of $10,000, 00, $50,000, $100,000, $500,000 and $1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up ne closing hour, one-thirty p.m., Eastern Standard Monday, March 8, 1971. Tenders will not be received ne Treasury Department, Washington. Each tender must be for a num of $10,000. Tenders over $10,000 must be in multiples of 0. In the case of competitive tenders the price offered must be ssed on the basis of 100, with not more than three decimals, 99.925. Fractions may not be used. It is urged that tenders be on the printed forms and forwarded in the special envelopes which be supplied by Federal Reserve Banks or Branches on application for.

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

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

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Only those submitting competitive tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on March 11, 1971, in cash or other immediately available funds or in a like face amount of Treasury bills maturing March 11, 1971. 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

NGTON, D.C. 20220 TELEPHONE W04-2041

NEWS

R IMMEDIATE RELEASE March 2, 1971

RETIRED FEDERAL WORKERS AND SURVIVORS
TAKING ADVANTAGE OF NEW TAX WITHHOLDING SYSTEM

The Treasury Department announced today that about 92,000 tired Federal workers or their survivors have requested thholding of Federal income taxes from their annuity checks nce tax withholding was made available to retired persons on nuary 1.

There are approximately one million Civil Service annuitants, cluding about 250,000 survivors.

Until passage of the Tax Reform Act of 1969, the law did t permit withholding of taxes from pensions and annuities. Treasury's request, Congress included in the Reform Act a ovision permitting withholding beginning this year.

By having taxes withheld, a retired person can avoid the ed for filing estimated Federal income tax returns by April 15 ch year, and making quarterly payments during the year to oid penalties for failure to pay estimated tax.

Under the new withholding procedure, the person who ceives a pension or annuity may ask the payer to withhold y specified whole dollar amount from each annuity payment, ovided the amount to be withheld is at least $5 a month d does not reduce the net amount of any annuity payment to ss than $10. The amount withheld need not equal the cipient's tax liability on the annuity.

Annuities which are wholly exempt from Federal taxation, h as social security pensions and Veterans Administration uities, are excluded from the withholding procedure.

A retired person may request tax withholding on Internal enue Service Form W-4P. This form has been sent to most ers of pensions and annuities and also is available at IRS trict offices.

Department of the TREASURY

NGTON, D.C. 20220 TELEPHONE W04-2041

NEWS

FOR IMMEDIATE RELEASE March 2, 1971

TREASURY PROPOSES RULE GOVERNING
INCOME TAX TREATMENT OF CONTINENTAL SHELF AREAS

The Treasury Department today proposed a regulation that would clarify the U.S. income tax treatment of individuals and companies participating in mineral exploration and development of continental shelf areas off the coasts of the United States, U.S. possessions, and foreign countries.

The regulation was issued under Section 638 of the Internal Revenue Code, which was added to the Code at Treasury's request by the Tax Reform Act of 1969. The Code section and the regulation provide the tax framework for the exploration and development of the natural resources of continental shelf areas.

The new Code section provides in general that income derived from mineral exploration or development operations on the U.S. shelf will be considered income from sources within the United States. Under the proposed regulation, individuals who are present on a rig standing on the shelf, or on a vessel located on the high seas above the shelf, would be treated as being physically present in the United States as long as they are part of a mineral exploration or development enterprise.

The regulation would also provide that the continental shelf areas adjacent to foreign countries which exercise taxing jurisdiction over the areas will be treated for U.S. tax purposes as part of those countries.

The Treasury proposal appears in the Federal Register of today, March 2. Before adoption of the proposed regulations, Treasury will consider comments or suggestions which are submitted in writing to the Commissioner of Internal Revenue, Attention: CC:LR:T, Washington, D.C. 20224, within 30 days.

Attachment

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C-13

DEPARTMENT OF THE TREASURY

INTERNAL REVENUE SERVICE

DEFINITIONS OF THE TERMS "UNITED STATES", "POSSESSION OF THE UNITED STATES", AND "FOREIGN COUNTRY"

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).

(Signed) Randolph W. Thrower

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]

RT 1--INCOME TAX; TAXABLE YEARS BEGINNING AFTER DECEMBER 31, 1953

SUBCHAPTER C--EMPLOYMENT TAXES

[EMPLOYMENT TAX REGULATIONS]

RT 31--EMPLOYMENT TAXES; APPLICABLE ON AND AFTER JANUARY 1, 1955

Definitions of the terms "United States", "possession of the United States", and "foreign country"

DEPARTMENT OF THE TREASURY,
Office of Commissioner of Internal Revenue,
Washington, D. C. 20224

TO OFFICERS AND EMPLOYEES OF
THE INTERNAL REVENUE SERVICE
AND OTHERS CONCERNED:

In order to conform the Income Tax Regulations (26 CFR Part 1) and the Employment Tax Regulations (26 CFR Part 31) to the amendments made by section 505 of the Tax Reform Act of 1969 (83 Stat. 634), such regulations are amended as follows:

Table of Contents

CONTINENTAL SHELF AREAS

Sec.
1.638 Statutory provisions; continental shelf areas.
1.638-1 Continental shelf areas.
1.638-2 Effective date.

INCOME TAX REGULATIONS

(26 CFR 1)

Paragraph 1. The following new sections are added immediately after § 1.632-1.

CONTINENTAL SHELF AREAS

§ 1.638 Statutory provisions; continental shelf areas.

Sec. 638. Continental shelf areas. For purposes of applying the provisions of this chapter (including sections 861 (a) (3) and 862 (a) (3) in the case of the performance of personal services) with respect to mines, oil and gas wells, and other natural deposits--

(1) The term "United States" when used in a geographical sense includes the seabed and subsoil of those submarine areas which are adjacent to the territorial waters of the United States and over which the United States has exclusive rights, in accordance with international law, with respect to the exploration and exploitation of natural resources; and

(2) The terms "foreign country" and "possession of the United States" when used in a geographical sense include the seabed and subsoil of those submarine areas which are adjacent to the territorial waters of the foreign country or such possession and over which the foreign country (or the United States in case of such possession) has exclusive rights, in accordance with international law, with respect to the exploration and exploitation of natural resources, but this paragraph shall apply in the case of a foreign country only if it exercises, directly or indirectly, taxing jurisdiction with respect to such exploration or exploitation.

No foreign country shall, by reason of the application of this section, be treated as a country contiguous to the United States.

[Sec. 638 as added by sec. 505 (a), Tax Reform Act 1969 (83 Stat. 634)]

§ 1.638-1 Continental shelf areas.

(a) General rule. For purposes of applying any provision of chapter 1, 2, 3, or 24 (including section 861 (a) (3), 862 (a) (3), 1441, 3402, or other provisions dealing with the performance of personal services), with respect to mines, oil and gas wells, and other natural deposits--

(1) United States and possession of the United States. The terms "United States" and "possession of the United States" when used in a geographical sense include the seabed and subsoil of those submarine areas which are adjacent to the territorial waters of the United States or such possession and over which the United States has exclusive rights, in accordance with international law, with respect to the exploration and exploitation of natural resources.

(2) Foreign country. The term "foreign country" when used in a geographical sense includes the seabed and subsoil of those submarine areas which are adjacent to the territorial waters of the foreign country and over which such foreign country has exclusive rights, in accordance with international law, with respect to the exploration and exploitation of natural resources, but this sentence applies only if such foreign country exercises, directly or indirectly, taxing jurisdiction with respect to such exploration or exploitation. A foreign country is not to be treated as a country contiguous to the

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United States by reason of the application of section 638 and this section.

(b) Exercise of taxing jurisdiction. For purposes of paragraph (a)(2) of this section, the exercise, directly or indirectly, of taxing jurisdiction with respect to the exploration or exploitation of natural resources is deemed to include those cases in which a foreign country--

(1) Imposes a tax upon capital assets connected with or income derived from such exploration or exploitation,

(2) Requires natural resources referred to in paragraph (a)(2) of this section to be transported to points within its landward boundaries and then levies a tax upon such natural resources or upon the income derived from the sale thereof, or

(3) Except as otherwise provided in this paragraph, exempts any person, in whole or in part for any period, from taxes imposed on income derived from such exploration or exploitation or assets connected therewith.

A foreign country which exempts any person, property, or activity engaged in or related to the exploration

or exploitation of mines, oil and gas wells, or other natural deposits in the seabed or subsoil referred to in paragraph (a) (2) of this section, or the income therefrom, from taxation while not exempting within its territorial boundaries any person, property, or activity engaged in or related to the exploration or exploitation of mines, oil and gas wells, or other natural deposits, or the income therefrom, is deemed not to be exercising, directly or indirectly, taxing jurisdiction for purposes of paragraph (a) (2) of this section, unless such exemption expires not more than 10 years from the commencement of such exploration or exploitation.

(c) Scope. (1) For purposes of applying this section, persons, property, or activities which are engaged in or related to the exploration or exploitation of mines, oil and gas wells, or other natural deposits need not be physically upon, connected, or attached to the seabed or subsoil referred to in subparagraph (1) or (2) of paragraph (a) of this section to be deemed to be

within the United States, a possession of the United States, or a foreign country, as the case may be, to the extent that the United States, a possession of the United States, or a foreign country, as the case may be, has jurisdiction over such person, property, or activities, in accordance with international law, with respect to such exploration or exploitation.

(2) Persons, property, or activities which are engaged in or related to the exploration or exploitation of mines, oil and gas wells, or other natural deposits and which are above or physically upon, connected, or attached to the seabed or subsoil referred to in subparagraph (1) or (2) of paragraph (a) of this section are generally within the United States, or a possession of the United States, as the case may be, or a foreign country if such country exercises, directly or indirectly, taxing jurisdiction with respect to such exploration or exploitation.

(d) Natural deposits. For purposes of this section, the term "natural deposits" means non-living resources to which section 611 (a) applies. Such term does not include fish, plant life, or living organisms belonging to the sedentary species (organisms which, at the harvestable state, either are immovable on or under the seabed or are unable to move except in constant physical contact with the seabed or subsoil referred to in paragraph (a) of this section). Living organisms belonging to the sedentary species include abalone, clams, king crab, and sponge.

(e) Examples. The application of the provisions of section 638 and this section may be illustrated by the following examples:

Example (1). A, a citizen of the United States privately employed as an engineer, is engaged in the exploitation of oil and is physically present on an offshore oil drilling platform. Such platform is affixed to the seabed of a submarine area which is adjacent to the territorial waters of foreign country X and over which that foreign country has

exclusive rights, in accordance with international law, with respect to the exploration and exploitation of natural resources. Assuming that foreign country X exercises taxing jurisdiction as provided in paragraph (a)(2) of this section, A is to be treated as being in foreign country X for purposes of section 638 and this section.

Example (2). The facts are the same as in example (1) except that B, a citizen of the United States privately employed as an attorney-at-law, is physically present on such platform for the sole purpose of interviewing his client, A, whom he represents in a domestic relations matter and has no other activities on the seabed or subsoil referred to in example (1). Since B is not engaged in activities related to the exploration or exploitation of natural deposits, he is not to be treated as being in foreign country X for purposes of section 638 and this section.

Example (3). B, a nonresident alien individual privately employed as a sailor, is physically present on a ship servicing an offshore oil drilling platform which is engaged in the exploitation of oil. Such platform is affixed to the seabed of a submarine area which is adjacent to the territorial waters of the United States and over which the United States has exclusive rights, in accordance with international law, with respect to the exploration and exploitation of natural resources. In such case, B is to be treated as being in the United States for purposes of section 638 and this section for that period he was on such ship when related to such exploitation and while the ship was above such seabed.

Example (4). C, a nonresident alien individual privately employed as an engineer in a foreign country, designs equipment for use on the oil drilling platform described in example (3). Although C's activities in this respect are related to the exploitation of oil in those submarine areas described in example (3), C is not treated as being in the United States for purposes of section 638 and this section by reason of such activities.

Example (5). M Corporation, a domestic corporation, chartered a ship from N Corporation, also a domestic corporation, under a time charter under which N Corporation's personnel continued to navigate and manage the ship. M Corporation equipped the ship with special oil exploration equipment and furnished its personnel to operate the equipment. The ship then commenced to explore for oil in the seabed and subsoil of those submarine areas which are adjacent to the territorial waters of foreign country Y and over which that foreign country has exclusive rights, in accordance with international law, with respect to the exploration and exploitation of natural resources. Assuming that foreign country Y exercises taxing jurisdiction as provided in paragraph (a)(2) of this section, M and N Corporations shall be treated as being within foreign country Y for purposes of section 638 and this section for the period they, their personal property, or activities are engaged in or related to the exploration for oil in such seabed or subsoil while such ship was above such seabed and subsoil.

Example (6). The facts are the same as in example (5) except that C, a citizen of the United States, is privately employed by N Corporation as a cook and is physically present on the ship. C's sole duties consisted of cooking meals for personnel aboard such ship. In such case, as C's activities are related to the exploration for oil, C is to be treated as being in foreign country Y for purposes of section 638 and this section for the period he was aboard such ship while it was engaged in activities relating to the exploration for oil in such seabed or subsoil and while the ship was above the seabed and subsoil referred to in example (5).

Example (7). Z Corporation, a foreign corporation, entered into a contract with Y Corporation, a United States corporation, to engage in exploratory oil drilling activities on a leasehold held by Y Corporation. Such leasehold was located in the seabed and subsoil of those submarine areas which are adjacent to the territorial waters of the United States and over which the United States has exclusive rights, in accordance with international law, with respect to the exploration and exploitation of natural resources. Since Z Corporation is engaged

in and has property and activities which are engaged in and related to the exploration for oil, Z Corporation, its property, and activities are to be treated as being in the United States for purposes of section 638 and this section for that period such corporation, property, and activities were engaged in or related to the exploration for oil in such seabed or subsoil and were above or physically upon, connected, or attached to such seabed or subsoil.

§ 1.638-2 Effective date.

The specific requirements and limitations of § 1.638-1 apply on and after December 30, 1969.

Par. 2. Section 1.1402 (a)-12 is amended to read as follows:

§ 1.1402 (a)-12 Possession of the United States.

For purposes of the tax on self-employment income, the term "possession of the United States", as used in section 931 (relating to income from sources within possessions of the United States) and section 932 (relating to citizens of possessions of the United States) shall be deemed not to include the Virgin Islands, Guam, or American Samoa. The provisions of section 1402 (a) (9) and of this section insofar as they involve nonapplication of sections 931 and 932 to Guam or American Samoa, shall apply only in the case of taxable years beginning after 1960. For definition of the term "United States" and for other geographical definitions relating to the continental shelf see section 638 and 1.638-1.

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Par. 3. Section 1.1441 is amended by adding immediately after § 1.1441 (e) the following new subsection.

§ 1.1441 Statutory provisions; withholding of tax on nonresident aliens.

Sec. 1441. Withholding of tax on nonresident aliens. * * *

(f) Continental shelf areas. For sources of income derived from, or for services performed with respect to, the exploration or exploitation of natural resources on submarine areas adjacent to the territorial waters of the United States, see section 638.

[Sec. 1441 as amended by sec. 505 (b), Tax Reform Act 1969 (83 Stat. 634)]

Par. 4. Section 1.1441-5 is amended by revising paragraph (d) to read as follows:

§ 1.1441-5 Claiming to be a person not subject to withholding

*   *   *   *   *

(d) Definitions. For determining whether an alien individual is a resident of the United States see § 1.871-2. For definition of the terms "foreign partnership" and "foreign corporation" see

section 7701 (a) (4) and (5) and § 301.7701-5. For definition of the term "United States" and for other geographical definitions relating to the continental shelf see section 638 and § 1.638-1.

EMPLOYMENT TAX REGULATIONS

(26 CFR Part 31)

Par. 5. Section 31.3401 (a)-1 is amended by inserting the following paragraph immediately after § 31.3401 (a)-1 (b)

§ 31.3401 (a)-1 Wages.

* * * * *

(c) Geographical definitions. For definition of the term "United States" and for other geographical definitions relating to the continental shelf see section 638 and § 1.638-1.

Department of the TREASURY

NGTON, D.C. 20220 TELEPHONE W04-2041

NEWS

R IMMEDIATE RELEASE March 4, 1971

TREASURY SECRETARY CONNALLY NAMES CHARLES B. MCCOY AS NEW STATE SAVINGS BONDS CHAIRMAN FOR DELAWARE

Charles Brelsford McCoy, President, E. I. du Pont de emours & Co., Inc., Wilmington, has been appointed volunteer ate Chairman for the U. S. Savings Bonds Program in laware by Secretary of the Treasury John B. Connally, fective immediately.

He succeeds O. H. P. Baldwin, Chairman and Chief xecutive Officer, Farmers Bank of the State of Delaware, o had served as State Chairman since September 1952.

McCoy will head a committee of State business, financial, abor, media, and government leaders which -- working with e U. S. Savings Bonds Division -- assists in promoting the ales of Savings Bonds.

The second man not of the du Pont family to head the orldwide enterprise, McCoy was elected twelfth President the Company, Chairman of its Executive Committee, and a ember of the Finance Committee in December 1967.

Prior to his election, he was a Vice President and ice Chairman of the Executive Committee. He has been a ember of the Board of Directors since 1961, when he also as elected a Vice President and member of the Executive ommittee.

He began his career as a cellophane operator at the ruance plant, near Richmond, Va. Soon after, he was transered to the Carney's Point, N. J., Works as a chemist. hrough the years he assumed positions of increasing esponsibility with du Pont, including assignments abroad.

(over)

He is a director of the Wilmington Trust Co., First National City Bank, New York City, and the Diamond State Telephone Co. He is a member of the Business Council.

McCoy is a trustee of the University of Pennsylvania and the Wilmington Medical Center. He served on the board of the Children's Bureau of Delaware and the Community Services Council of Delaware for a number of years.

In 1969, President Nixon named him Wilmington Metropolitan Area Chairman of the National Alliance of Businessmen. The same year he was the 36th receipient of the annual Chemical Industry Medal Award of the Society of Chemical Industry.

The Oakland, Calif., native attended the Wilmington, Del., Friends School. McCoy received a B. S. Degree in Chemistry from the University of Virginia, and an M. S. Degree in Chemical Engineering from the Massachusetts Institute of Technology. He is a member of Phi Beta Kappa.

He and his wife, the former Sallie L. Curtis of Wilmington, have three sons, Charles B., Jr.; Robert C., and Thomas F. The McCoys live in Centerville.

ITED STATES SAVINGS BONDS ISSUED AND REDEEMED THROUGH February 28, 1971

(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
935 thru D-1941	5,003	4,998	6	.12
nd G-1941 thru 1952	29,521	29,491	30	.10
nd K-1952 thru 1957	3,754	3,740	13	.35
D				
/ :				
41	1,898	1,699	199	10.48
42	8,375	7,500	875	10.45
43	13,468	12,095	1,372	10.19
44	15,723	14,035	1,689	10.74
45	12,365	10,883	1,482	11.99
46	5,622	4,782	839	14.92
47	5,345	4,404	940	17.59
48	5,534	4,481	1,053	19.03
49	5,478	4,361	1,117	20.39
50	4,796	3,767	1,030	21.48
51	4,146	3,252	894	21.56
52	4,344	3,385	959	22.08
53	4,963	3,792	1,171	23.59
54	5,060	3,805	1,255	24.80
55	5,273	3,918	1,355	25.70
56	5,097	3,749	1,347	26.43
57	4,802	3,478	1,324	27.57
58	4,691	3,290	1,401	29.87
59	4,398	3,038	1,360	30.92
60	4,414	2,943	1,471	33.33
61	4,483	2,847	1,636	36.49
62	4,340	2,672	1,668	38.43
63	4,864	2,763	2,101	43.19
64	4,722	2,711	2,011	42.59
65	4,617	2,628	1,989	43.08
66	4,974	2,708	2,266	45.56
67	4,926	2,615	2,311	46.91
68	4,673	2,373	2,300	49.22
69	4,383	1,999	2,384	54.39
70	4,294	1,185	3,109	72.40
71	13	-	13	100.00
ssified	536	390	145	27.05
Series E	172,618	127,551	45,067	26.11
(1952 thru May, 1959) 3/	5,485	3,747	1,738	31.69
(June, 1959 thru 1971)	7,699	2,400	5,299	68.83
Series H	13,184	6,147	7,037	53.38
Series E and H	185,802	133,698	52,104	28.04
s { Total matured	38,277	38,229	49	.13
Total unmatured	185,802	133,698	52,104	28.04
Grand Total	224,079	171,927	52,152	23.27

ied discount.

ption value.

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

Department of the TREASURY

NGTON, D.C. 20220 TELEPHONE WO4-2041

NEWS

R RELEASE ON DELIVERY

STATEMENT BY THE HONORABLE JOHN B. CONNALLY
SECRETARY OF THE TREASURY
BEFORE
THE SENATE COMMITTEE ON FINANCE
ON THE LIMIT ON THE PUBLIC DEBT AND THE 4-1/4 PERCENT
INTEREST RATE CEILING
MONDAY, MARCH 8, 1971 AT 10:00 A.M.

Chairman:

This Committee is by now familiar with the broad outlines the President's budget. On the unified budget basis, the ficit is expected to be $18.6 billion in the current fiscal ar, and $11.6 billion in fiscal 1972. On the federal funds sis, which is more relevant for purposes of projecting the ticipated increase in debt outstanding, the deficits are pected to be $25.5 billion and $23.1 billion, respectively.1/

These are very sizable figures. However, in existing onomic circumstances, with too much unemployment and unused pacity, the anticipated deficits seem to me fully consistent th sound and prudent financial planning. The President, in ct, has kept proposed expenditures within the revenue totals at would be generated by our tax system at full employment. the economy moves in the direction of full employment this ar and next, a balance or surplus can and should be restored. the meantime, our willingness to accept deficits, to the tent they reflect a sluggishness in the economy and thus revenue collections, will help speed the desired expansion.

I firmly believe that the anticipated deficits can be nanced in a manner consistent with orderly expansion of e economy, and without building into the economy a renewed flationary potential, provided the Treasury has the needed

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1/ Table I shows a reconciliation of the unified and Federal funds budgets. The major difference reflects the government's trust funds, which are expected to be in substantial surplus in the next two years.

flexibility in shaping its financing program. Therefore, I request your committee and the Senate to act, as a matter of urgency, to provide us with essential financing leeway in two areas: First, an increase in the statutory debt limit now set at $395 billion, and second, authority to sell Treasury bonds outside the present statutory interest rate limit of 4-1/4 percent. Specifically, I request that the Senate approve the H.R. 4690, as passed by the House, raising the temporary debt limit to $430 billion through June 30, 1972, and authorizing $10 billion of new bond issues outside the 4-1/4 percent ceiling.

Debt Limit

The present temporary debt limit of $395 billion was enacted by the Congress last June on the basis of a projected unified budget deficit of only $1.3 billion, a projection that proved to be very wide of the mark. Revenues are now estimated to be $10 billion less than were projected last spring and expenditures are estimated to be $7 billion higher, largely as a result of increases in "uncontrollable" outlays in such areas as interest on the public debt and social security together with higher Congressional appropriations.

As a result of this very much larger deficit, the debt subject to limit is now substantially higher than was then anticipated, and the margin for contingencies has been largely exhausted. On February 25, we came within $1.6 billion of the present ceiling, and our projections indicate that debt subject to limit will be running very close to the ceiling throughout this month. As is evident from Table II, attached to my statement, the debt will rise further in April and reach a temporary peak in mid-June.[2]

Without prompt action on the debt ceiling, therefore, we will be faced with the need in a matter of a few weeks to turn to uneconomic and costly expedients to maintain an orderly flow of payments in accordance with Congressional authorizations. Indeed, our ability to plan orderly financing later this month is jeopardized if the ceiling is not raised.

2/ This table has been updated to reflect actual figures for February, and slightly revised projections through May from the comparable table submitted to the House Ways and Means Committee.

reover, it is essential to have a margin for contingencies to et unexpected cash drains, a short-fall of revenues, anticipated bunching of expenditures, or disturbances in the ils, all of which could create serious operating difficulties. Secretary of the Treasury, I could not contemplate operating udently on that basis. Consequently, I believe it essential at the Congress take action to lift the debt limit within the xt two weeks. At the same time, I believe it would be asonable to look further ahead and provide a limit adequate meet the need for fiscal 1972 (See Table III attached).

When I appeared before the House Committee on Ways and ans, I requested a temporary debt limit of $435 billion rough June 30, 1972. On the basis of a constant cash balance $6 billion and a $3 billion margin for contingencies, the dget projections implied a need for a debt limit of proximately $433-1/2 billion. In view of the inherent certainties in projections looking 16 months ahead, it seemed asonable to round the number to $435 billion.

The Ways and Means Committee and the House approved a mporary debt limit of only $430 billion, $5 billion less an I requested. As I told the Ways and Means Committee at the me, however, this lower figure ought to be adequate through at ast this time next year, and I am prepared to accept it on at basis, recognizing that it does not provide fully for ssible contingencies.

1/4 Percent Ceiling

Since 1918 the Treasury Department has been subject to a 1/4 percent limitation on the rate of interest payable on s bonds. This rate was chosen, as I understand it, simply cause 4-1/4 percent was the rate felt to be necessary to sell nds in the closing months of World War I. The ceiling now plies in practice only to securities maturing in more than years, since Treasury bills and certificates (instruments that ture within a year) and notes (instruments that mature in one seven years) can be sold without limitation as to interest rate.

Until the last few years, the interest limitation did not present a serious impediment to Treasury financing. Although ng-term market yields for Treasury securities were above 1/4 percent at times in the 1920's, and in the late 1950's, e periods were of limited duration and, by and large, did not incide with heavy Treasury borrowing requirements.

In the past 5 years, however, the situation has been very different. Because of the interest rate ceiling, the Treasury has been unable to sell a security maturing in more than 7 years since mid-1965. The result has been a substantial and serious piling up of the debt in the short-term area.

The results are reflected in a series of charts attached to my statement. The average maturity of the debt has declined during this period from 5 years and 9 months in June 1965, to 3 years and 4 months at the end of January of this year (Chart 1). The volume of maturing notes and bonds that we need to refinance each year rose from 1965 to the beginning of this year by more than half, or from $13.3 billion to $22.9 billion (Chart 2). As a counterpart, the amount of Treasury debt of more than 7 years maturity outstanding had declined precipitously, from $43-1/2 billion to $17-1/2 billion (see Chart 5).

As a simple matter of prudent financing, this is not a healthy situation. We are faced with large refundings, quarter after quarter. Concentration of these financings in a limited sector of the market creates unnecessary congestion and limits our flexibility in arranging prior or subsequent cash financings. While the absorptive capacity of the short-term market is normally large, in this uncertain world it is hardly appropriate to test the limits of that capacity unnecessarily. At best, we are vulnerable to any recurrence of high rates and tight money; at worst, the heavy volume of maturities can jeopardize our ability to finance in an orderly manner.

I believe the present situation is equally bad as a matter of broader economic policy. In 1969 and 1970, the forced concentration on short-term financing helped aggravate competitive pressures on thrift institutions and thus played a part in impairing the flow of funds into the housing markets. Over time, the buildup of short-term Treasury debt tends to increase the liquidity of the economy in a manner not easily subject to control by the monetary authorities. It, therefore, undermines the task of economic management and particularly risks a refueling of inflationary pressures when demand pressures are strong. The large financings imposed by the present debt structure also complicate the task of the Federal Reserve in carrying out its open-market operations or making policy changes at critical times because of the need to avoid

disturbing the process of market reception or digestion of such large new issues by the Treasury.

The interest-rate limitation on long-term bonds is sometimes defended as a device to achieve a saving in interest cost. However, recent experience provides ample illustration of the point that, in a period of inflation and heavy credit demands, a legislated ceiling rate on Treasury bonds cannot prevent yields from rising sharply throughout credit markets. Ceiling or not, the Treasury did need to finance in the market in heavy volume, and the concentration of that financing in the short-term area at times helped to push those rates well above prevailing yields for longer issues. (Chart 6.)

Happily, the entire structure of interest rates has declined sharply from the peaks of 1969 and 1970. Medium and longer-term Treasury issues are now trading in a narrow range around 6 percent, as much as 2 percent below peak levels. At the same time, these yields are still far above levels that would make financing at 4-1/4 percent a practicable or foreseeable proposition.

The importance of obtaining some relief from this ceiling is widely appreciated. Every man living who has served as Secretary of the Treasury joins me in supporting the removal of this ceiling now. There is strong support among professional economists -- including those prominent in the counsels of both political parties and otherwise divided on many policy issues. Organizations concerned with the health of our financial institutions, with the mortgage market, and with homebuilding have publicly expressed their conviction that the ceiling should be relaxed. Impartial investigations -- including the inquiry of more than a decade ago of the Commission on Money and Credit and the Commission on Mortgage Interest Rates appointed in 1968 by President Johnson -- have made similar recommendations.

In appearing before the Ways and Means Committee, I requested legislation that would remove the ceiling entirely. However, I have no intention of pressing massive sales of long-term bonds on a reluctant market. Consequently, I am quite prepared to accept the provision in the House bill which

exempts only $10 billion of bonds from the limitation. This should provide adequate additional scope for selling securities beyond the 7 year area for the period immediately ahead, and therefore assist in maintaining an orderly financing pattern.

I am convinced that moderate amounts of longer-term debt can be placed without undesirably impinging upon competing demands for credit. It will be my intention to use the authority flexibly, in the interests of improving our debt structure, confident that this Committee and the Congress will be willing to extend and enlarge the authority as necessary on the basis of an established record.

Attachments

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1/72

TABLE I

Reconciliation of Unified and Federal Funds Budget

penditure Account	Fiscal Years* 1971	1972
	($ billions)	
Receipts		
Total Unified	194.2	217.6
Federal Funds	139.1	153.7
Trust Funds	66.2	75.5
Less: Intragovernmental Transactions	-11.1	-11.6
Outlays		
Total Unified	212.8	229.2
Federal Funds	164.7	176.9
Trust Funds	59.2	64.0
Less: Intragovernmental Transactions	-11.1	-11.6
ıdget Surplus or Deficit (-)		
Unified	-18.6	-11.6
Federal Funds	-25.5	-23.1
Trust Funds	7.0	11.5

'igures are estimated. Totals may not
ıdd due to rounding.

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TABLE II

PUBLIC DEBT SUBJECT TO LIMITATION

FISCAL YEAR 1971
(In billions)

1970	Operating Cash Balance (excluding free gold)	Public Debt Subject to Limitation
	ACTUAL	
30	$7.9	$373.4
15	5.5	377.7
31	7.3	379.1
st 17	6.4	383.5
st 31	7.2	383.4
ember 15	3.3	383.1
ember 30	8.7	381.2
ber 15	4.2	382.2
ber 30	6.3	382.7
mber 16	4.1	385.4
mber 30	5.8	386.1
mber 15	3.7	389.5
mber 31	8.0	391.6
1971		
ary 15	4.0	392.1
ary 29	9.5	390.8
uary 16	6.2	391.2
uary 26	7.8	392.3
	ESTIMATED	
sed on constant minimum operating cash balance of $6.0 billion)		
h 15	6.0	397.3
h 31	6.0	395.3
l 15	6.0	400.8
l 30	6.0	392.0
17	6.0	397.3
31	6.0	399.4
15	6.0	404.7
30	6.0	396.5

March 8, 1971

TABLE III

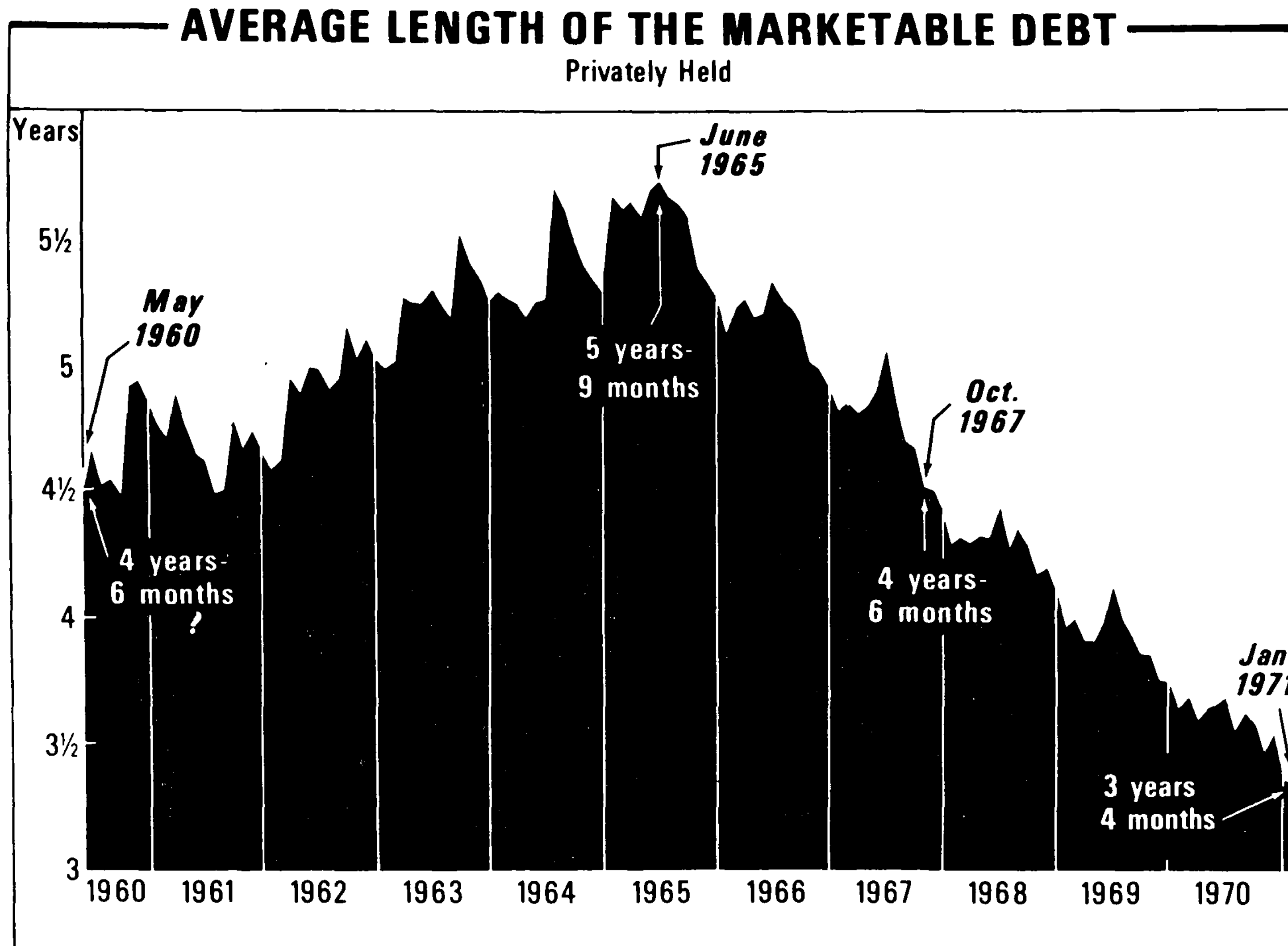
ESTIMATED PUBLIC DEBT SUBJECT TO LIMITATION

FISCAL YEAR 1972
(In billions)

1971	Debt with $6.0 cash balance	With $3.0 margin for contingencies
ne 30	$396.5	$399.5
ly 15	403.1	406.1
ly 30	403.9	406.9
gust 16	409.3	412.3
gust 31	409.4	412.4
ptember 15	413.0	416.0
ptember 30	405.3	408.3
tober 15	410.8	413.8
tober 29	409.1	412.1
vember 15	413.0	416.0
vember 30	413.7	416.7
cember 15	418.4	421.4
cember 31	416.1	419.1
1972		
nuary 17	422.5	425.5
nuary 31	414.6	417.6
bruary 15	418.8	421.8
bruary 29	419.4	422.4
rch 15	426.0	429.0
rch 31	423.8	426.8
ril 17	429.7	432.7
ril 28	419.1	422.1
y 15	424.6	427.6
y 31	425.9	428.9
ne 15	430.6	433.6
ne 30	420.0	423.0

March 8, 1971

Chart 1



Office of the Secretary of the Treasury
Office of Debt Analysis

March 5, 1971-4

Chart 2

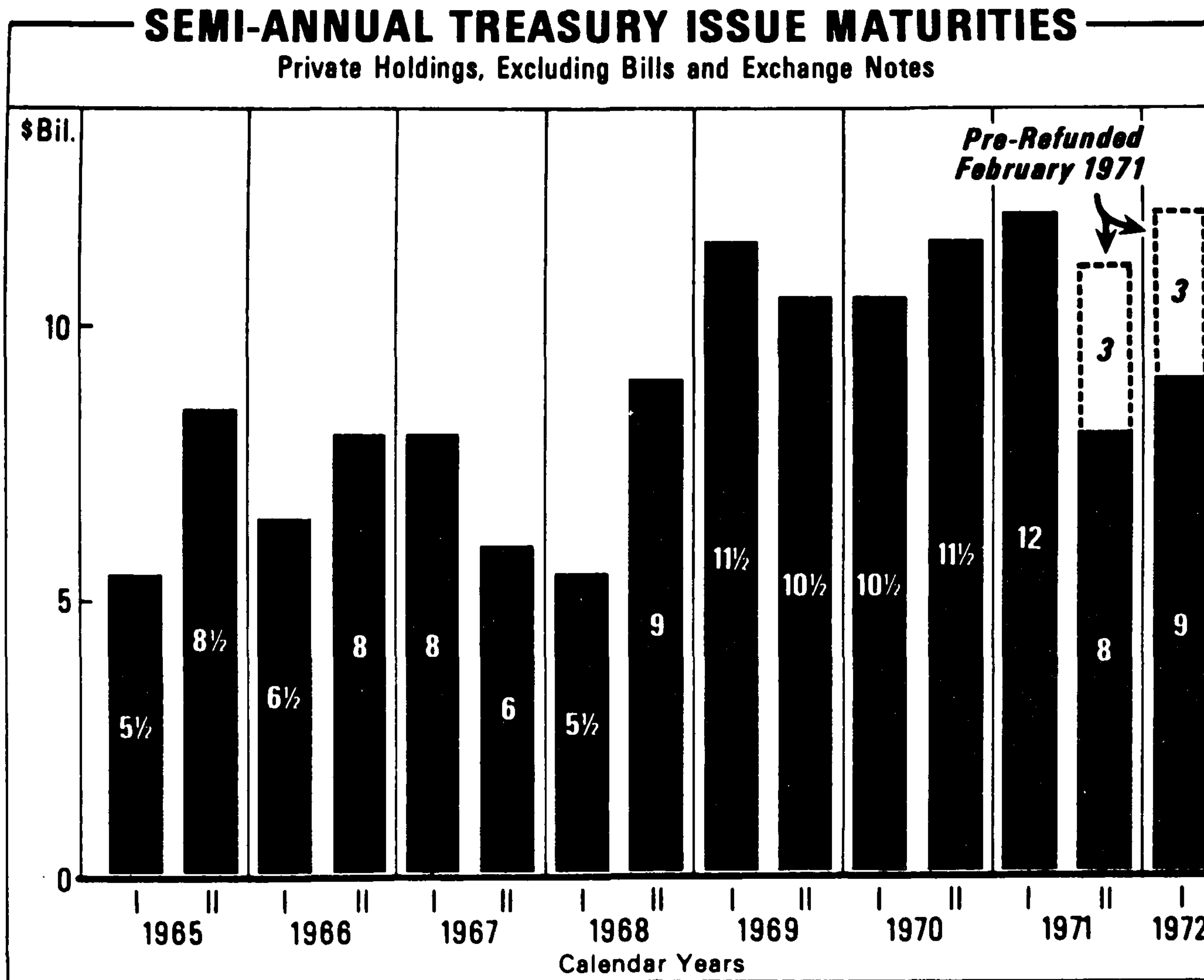


Chart 3

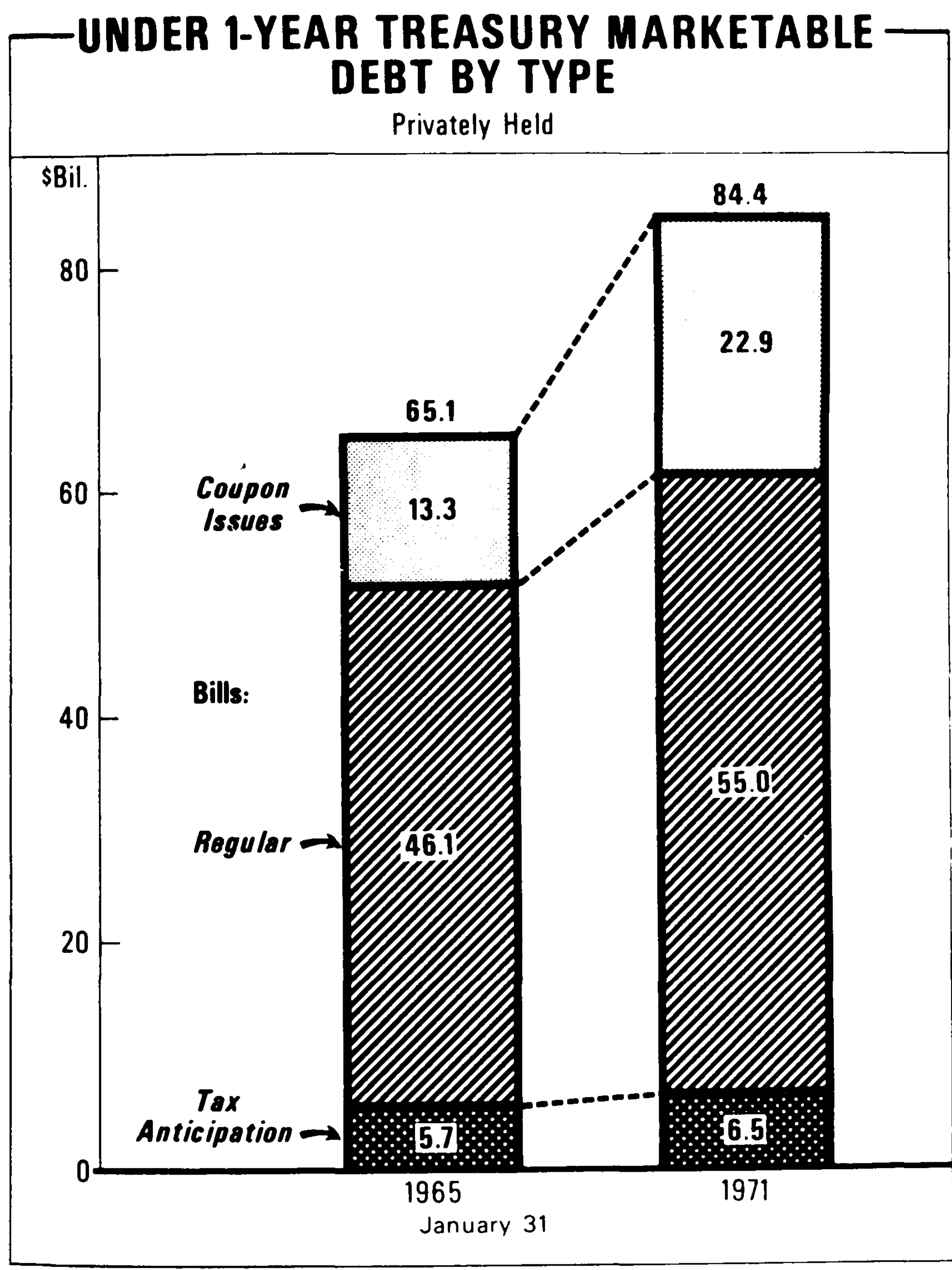


Chart 4

1 TO 7 YEAR TREASURY MARKETABLE DEBT

Privately Held

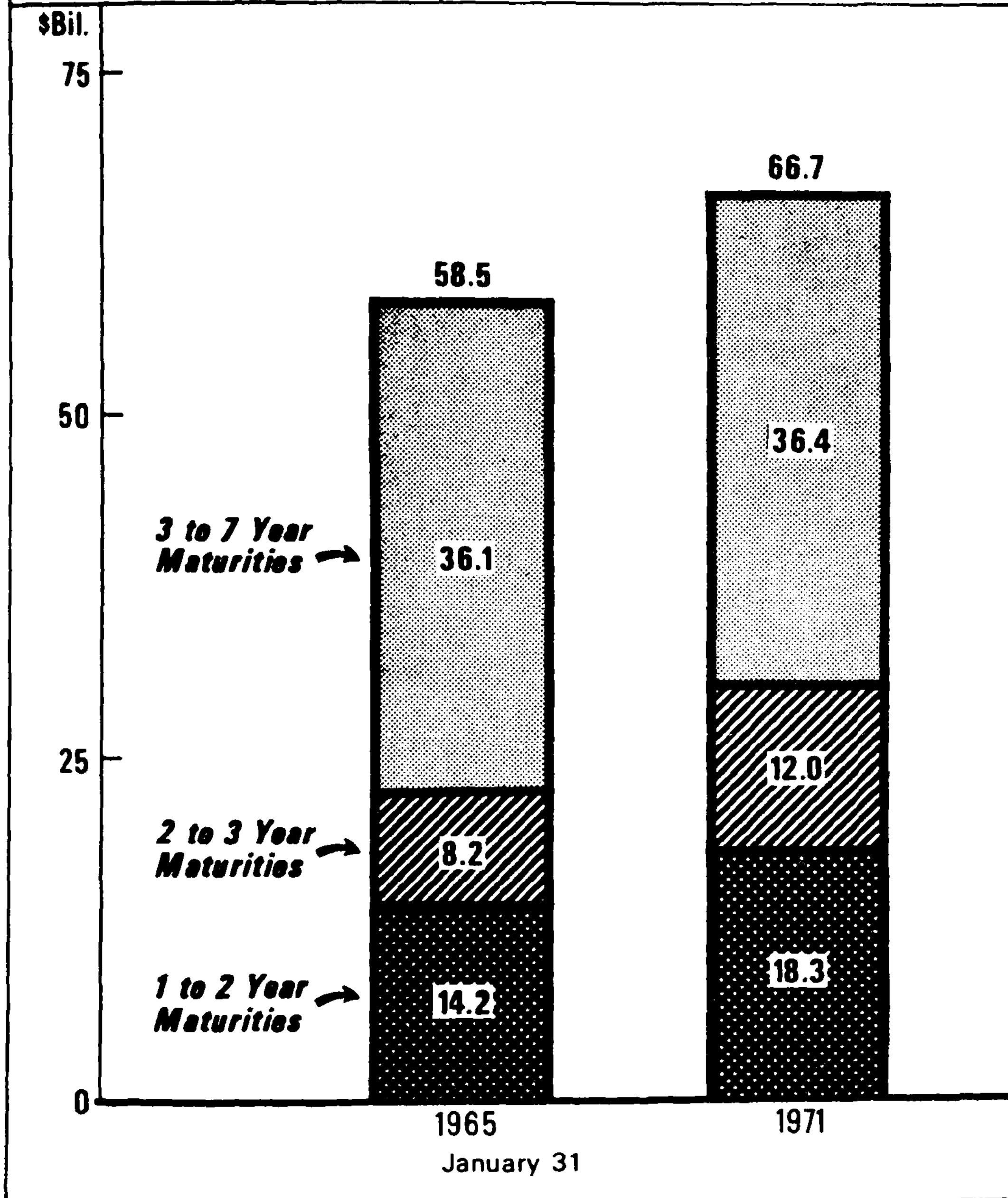


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Chart 5

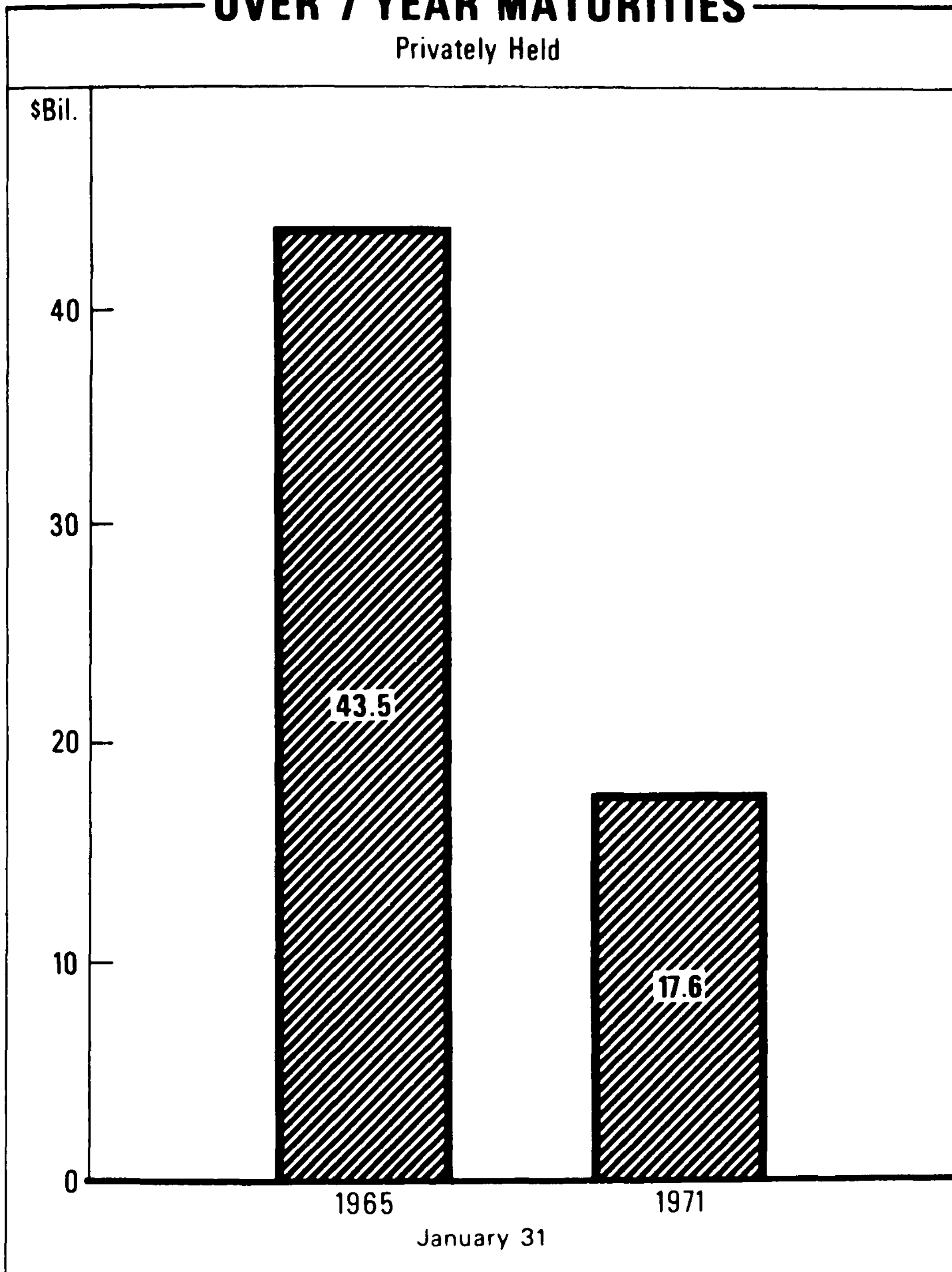
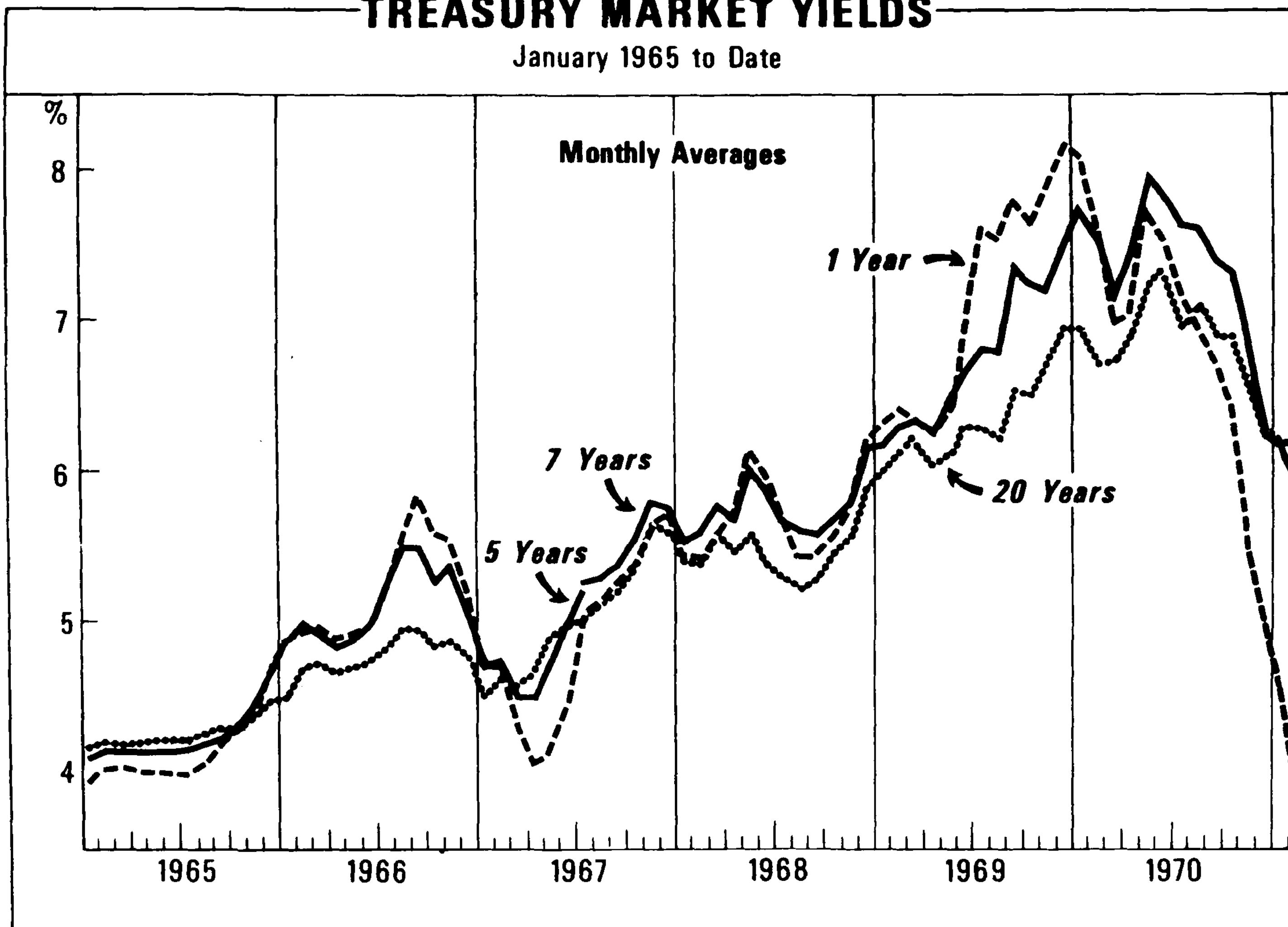


Chart 6



Office of the Secretary of the Treasury
Office of Debt Analysis

March 5, 1971 5

IMMEDIATE RELEASE March 8, 1971

MEMORANDUM FOR THE PRESS:

The Department of the Treasury has published in the Federal Register the attached notice on "Second Clear Wheat Flour."

Attachment

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Notices

[DEPAR]TMENT OF THE TREASURY

Bureau of Customs

[461.161]

[SECO]ND CLEAR WHEAT FLOUR

Tariff Classification

MARCH 4, 1971.

[...] ruling published November 2, [...] F.R. 15186), second clear wheat [...] reclassified from the provision [...]al feed obtained as a byproduct [...]illing of grain, in item 184.70, [...]chedules of the United States [...] to the provision for milled [...]oducts in item 131.40, TSUS, if [...]uman consumption, or in item [...]SUS, if unfit for human con[...]. A notice published July 23, [...] F.R. 10463), indicated that the [...]of the ash content test thereto[...]l as one of the tests of the fit[...] wheat flour, including second [...] human consumption was being [...]d. A further notice published [...] 28, 1969 (34 F.R. 3635), indi[...]at it had been concluded that [...]lear wheat flour is, in the tariff [...] byproduct, rather than a prod[...]e milling of grain and proposed [...]y second clear wheat flour as a [...]erated product not provided for [...], in item 799.00, TSUS.

[...]presentations submitted in re[...] all the notices, including that [...] on February 28, 1969, have [...]iewed and, in the light of all [...] information, it has been con[...]at second clear wheat flour is, [...]iff sense, a product, rather than [...]uct, of the milling of grain. It [...] further concluded that the [...] tariff classification of second [...]eat flour in item 131.40, TSUS, [...] human consumption, or item [...]SUS, if unfit for human con[...], is correct.

[...] of the foregoing, it has been [...]oncluded that the question of [...]ity of the ash content test as a [...] of the fitness of wheat flour, [...] second clear, for human con[...], the review of which was an[...] by the notice of July 23, 1968 [...] 10463), should be revived and [...]

[...]ingly, it has been tentatively [...] that all wheat flour, including [...]lear, should be regarded as fit [...]an consumption in the tariff [...]ess it is adulterated or contami[...] the time of importation in such [...] that it cannot be consumed by [...]without processing to eliminate [...]ntamination or adulteration. [...]ntly, wheat flour which is so [...]ed or contaminated should be [...]d to be unfit for human con[...] and classified in item 131.72, TSUS, with duty at the rate of 2.5 percent ad valorem. All other wheat flour should be considered fit for human consumption and classified in item 131.40, TSUS, with duty at the rate of 52 cents per hundred pounds.

Pursuant to § 16.10a(d), Customs Regulations (19 CFR 16.10a(d)), notice is hereby given that there is under review the existing established and uniform practice of classifying wheat flour as unfit for human consumption because of its ash content.

Consideration will be given to any relevant data, views, or arguments pertaining to the correct tariff classification of this merchandise which are submitted in writing to the Commissioner of Customs, Washington, D.C. 20226. To assure consideration, such communications must be received not later than 30 days from the date of publication of this notice. No material submitted in response to any of the notices cited herein need be resubmitted. No hearing will be held.

[SEAL] EUGENE T. ROSSIDES,
Assistant Secretary of the Treasury.

[FR Doc.71-3178 Filed 3-4-71;10:30 am]

Department of the TREASURY

NGTON, D.C. 20220 TELEPHONE W04-2041

NEWS

)N: FINANCIAL EDITOR

:ASE 6:30 P.M., EST

March 8, 1971

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

: Treasury Department announced that the tenders for two series of Treasury
)ne series to be an additional issue of the bills dated December 10, 1970 , and
:r series to be dated March 11, 1971 , which were offered on March 2, 1971,
:ned at the Federal Reserve Banks today. Tenders were invited for $1,900,000,000
:abouts, of 91 -day bills and for $1,400,000,000 or thereabouts, of 182-day
The details of the two series are as follows:

' ACCEPTED 'IVE BIDS:	91-day Treasury bills maturing June 10, 1971		:	182-day Treasury bills maturing September 9, 1971	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
;h	99.179	3.248%	:	98.325	3.313%
'	99.156	3.339%	:	98.287	3.388%
:rage	99.164	3.307% 1/	:	98.302	3.359%

' of the amount of 91 -day bills bid for at the low price was accepted
' of the amount of 182-day bills bid for at the low price was accepted

:NDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

.ct	Applied For	Accepted	:	Applied For	Accepted
ı	$ 22,945,000	$ 12,895,000	:	$ 12,285,000	$ 2,285,000
)rk	2,195,315,000	1,300,615,000	:	2,049,940,000	1,078,780,000
lelphia	35,890,000	20,890,000	:	15,045,000	5,045,000
.and	45,595,000	43,505,000	:	31,295,000	28,195,000
)nd	32,700,000	32,700,000	:	8,385,000	4,385,000
;a	49,820,000	40,820,000	:	37,015,000	20,495,000
;o	213,610,000	208,610,000	:	164,785,000	159,785,000
)uis	60,625,000	58,725,000	:	25,890,000	20,670,000
ıpolis	35,655,000	35,655,000	:	27,890,000	23,030,000
City	44,530,000	39,190,000	:	19,245,000	13,745,000
	35,620,000	18,940,000	:	28,525,000	6,525,000
'ancisco	133,550,000	87,550,000	:	117,450,000	37,330,000
TOTALS	$2,905,855,000	$1,900,095,000 a/		$2,537,750,000	$1,400,270,000 b/

.des $254,595,000 noncompetitive tenders accepted at the average price of 99.164
.des $83,000,000 noncompetitive tenders accepted at the average price of 98.302
rates are on a bank discount basis. The equivalent coupon issue yields are
' for the 91 -day bills, and 3.47% for the 182-day bills.

Department of the TREASURY

NGTON, D.C. 20220 TELEPHONE W04-2041

NEWS

'OR IMMEDIATE RELEASE March 9, 1971

EMORANDUM FOR THE PRESS:

Attached, for your information, are copies of letters :ransmitting the draft of a proposed bill "To remove :ertain limitations on the granting of relief to owners ıf lost or stolen bearer securities of the United States..." :f enacted, it will enable the Secretary of the Treasury :o replace lost or stolen Treasury securities .mmediately rather than to require the owner to wait ıntil they have reached maturity.

ıttachments

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THE SECRETARY OF THE TREASURY
WASHINGTON

MAR - 9 1971

r Mr. Speaker:

There is transmitted herewith a draft of a proposed bill remove certain limitations on the granting of relief to ers of lost or stolen bearer securities of the United States, for other purposes."

Under present law, the Secretary of the Treasury can grant ief prior to maturity on account of bearer securities of the ted States only where they are clearly proven to have been troyed. When it is known only that securities have been t or stolen, relief cannot be granted until after maturity.

Because the Secretary, under present law, is able to grant ief only after the maturity date, the owner of a security t has been lost or stolen is unable to sell it or pledge it use it in any other way. The risks and costs involved in dling Treasury securities, particularly for financial instiions, are therefore greater than they need be, which ersely affects the market for Treasury securities. In fact, ks have recently become so great in some areas that insure companies have reduced coverage, and are considering hdrawing it entirely. If private insurance coverage were available, it is probable that many financial institutions ch now make markets in Treasury securities would decide that y could not continue to handle them. In that event, it ht be necessary for the Government, in order to maintain a ctioning market, to provide insurance, a step which it is ed can be avoided.

The objective of the proposed legislation is to make it sonable for private insurance companies to continue coverage for market participants to be self-insurers) by eliminating ts that can be eliminated without exposing the Treasury to ks. This would be done by enabling the Secretary of the asury to replace lost or stolen Treasury securities immetely rather than to require the owner to wait until they e reached maturity. Enactment of the proposed legislation ld not create any financial risks for the Government or any ts to be borne by the taxpayers, because the requirement of ond of indemnity is complete protection in case of double ment by the Treasury.

While the primary purpose of the proposal is to remove itations on the granting of relief on account of lost or len bearer securities, it is drafted as a complete revision

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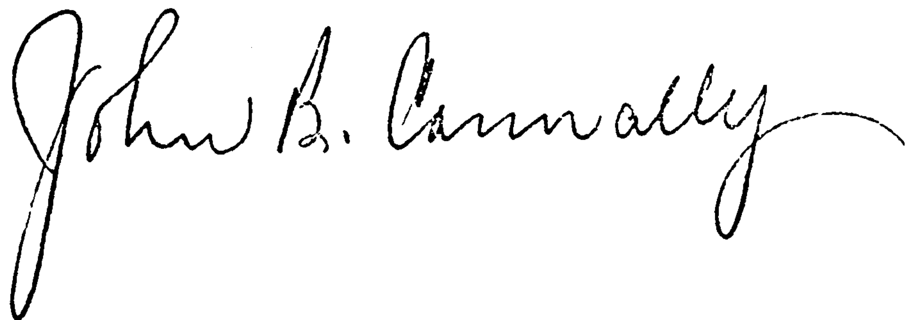
the existing statute in order to streamline that statute
eliminate provisions which concern form and procedural
ail rather than substance. The definition of securities
broad enough, for example, to cover new types of Treasury
urities that might be authorized in the future, while the
hority which should be given to the secretary is comprehen-
e enough to enable him by regulation to grant relief only
connection with those securities and those situations which
l promote the objective of the legislation.

It would be appreciated if you would lay the draft bill
'ore the House of Representatives. An identical bill has
n transmitted to the President of the Senate. A copy has
o been sent to the Chairman of the House Committee on
ernment Operations, the committee to which a similar request
referred near the end of the last session.

The Department has been advised by the Office of Manage-
it and Budget that there is no objection to the submission
this proposed legislation to the Congress.

Sincerely yours,



Honorable
l Albert
aker of the House
f Representatives
hington, D.C. 20515

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THE SECRETARY OF THE TREASURY
WASHINGTON

MAR - 9 1971

r Mr. President:

There is transmitted herewith a draft of a proposed bill remove certain limitations on the granting of relief to ers of lost or stolen bearer securities of the United States, for other purposes."

Under present law, the Secretary of the Treasury can grant ief prior to maturity on account of bearer securities of the ted States only where they are clearly proven to have been troyed. When it is known only that securities have been t or stolen, relief cannot be granted until after maturity.

Because the Secretary, under present law, is able to grant ief only after the maturity date, the owner of a security t has been lost or stolen is unable to sell it or pledge it use it in any other way. The risks and costs involved in dling Treasury securities, particularly for financial instiions, are therefore greater than they need be, which ersely affects the market for Treasury securities. In fact, ks have recently become so great in some areas that insurance ıpanies have reduced coverage, and are considering withdrawing entirely. If private insurance coverage were not available, is probable that many financial institutions which now make 'kets in Treasury securities would decide that they could not ıtinue to handle them. In that event, it might be necessary ' the Government, in order to maintain a functioning market, provide insurance, a step which it is hoped can be avoided.

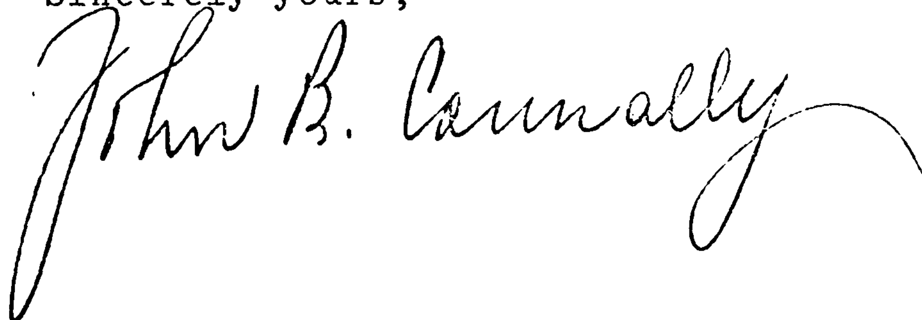
The objective of the proposed legislation is to make it ısonable for private insurance companies to continue coverage ' for market participants to be self-insurers) by eliminating ;ts that can be eliminated without exposing the Treasury to ;ks. This would be done by enabling the Secretary of the ;asury to replace lost or stolen Treasury securities immeıtely rather than to require the owner to wait until they 're reached maturity. Enactment of the proposed legislation ıld not create any financial risks for the Government or any ;ts to be borne by the taxpayers, because the requirement of ›ond of indemnity is complete protection in case of double ment by the Treasury.

While the primary purpose of the proposal is to remove itations on the granting of relief on account of lost or len bearer securities, it is drafted as a complete revision the existing statute in order to streamline that statute eliminate provisions which concern form and procedural ail rather than substance. The definition of securities is ad enough, for example, to cover new types of Treasury urities that might be authorized in the future, while the hority which should be given to the Secretary is comprehen-e enough to enable him by regulation to grant relief only connection with those securities and those situations which l promote the objective of the legislation.

It would be appreciated if you would lay the draft bill ore the Senate. An identical bill has been transmitted to Speaker of the House of Representatives. A copy has also n sent to the Chairman of the Senate Committee on Banking Currency, the committee to which a similar request was erred near the end of the last session.

The Department has been advised by the Office of Manage-t and Budget that there is no objection to the submission this proposed legislation to the Congress.

Sincerely yours,



Honorable
ro T. Agnew
sident of the Senate
hington, D.C. 20510

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A BILL

To remove certain limitations on the granting of relief to owners of lost or stolen bearer securities of the United States, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That subsections (a)-(d) of section 8 of the Government Losses in Shipment Act, as amended (31 U.S.C. 738a), are amended to read as follows:

"(a). Under such regulations as he may deem necessary for the administration of this section, the Secretary of the Treasury is authorized to grant relief on account of the loss, theft, destruction, mutilation, or defacement of any security identified by number and description.

"(b). A bond of indemnity shall be required as a condition of relief, whether before, at, or after maturity, on account of any security payable to bearer or so assigned as to become, in effect, payable to bearer which is not clearly proven to have been destroyed. The bond of indemnity shall be in such form and amount and with such surety, sureties, or security as the Secretary of the Treasury shall require.

"(c). No relief shall be granted on account of interest coupons claimed to have been attached to a security unless the Secretary is satisfied that such coupons have not been paid and are in fact destroyed or will not become the basis of a valid claim against the United States.

"(d). The term "security" means any direct obligation of the United States issued pursuant to law for valuable consideration, including bonds, notes, certificates of indebtedness and Treasury bills, and interim certificates issued for any such security."

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

IMMEDIATE RELEASE March 9, 1971

TREASURY'S WEEKLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders two series of Treasury bills to the aggregate amount of ,300,000,000, or thereabouts, for cash and in exchange for Treasury ls maturing March 18, 1971 in the amount of $3,302,225,000, follows:

91 -day bills (to maturity date) to be issued March 18, 1971, the amount of $ 1,900,000,000, or thereabouts, representing an itional amount of bills dated December 17,1970, and to mature ie 17, 1971 (CUSIP No. 912793 KN5) originally issued in amount of $1,399,985,000 (an additional $200,745,000 was issued ruary 26, 1971), the additional and original bills to be freely erchangeable.

182 - day bills, for $ 1,400,000,000, or thereabouts, to be dated h 18, 1971, and to mature September 16, 1971 SIP No. 912793 LJ3).

The bills of both series will be issued on a discount basis under etitive and noncompetive bidding as hereinafter provided, and at rity their face amount will be payable without interest. They will ssued 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 he closing hour, one-thirty p.m., Eastern Standard , Monday, March 15, 1971. Tenders will not be received he Treasury Department, Washington. Each tender must be for a mum of $10,000. Tenders over $10,000 must be in multiples of 00. In the case of competitive tenders the price offered must be essed on the basis of 100, with not more than three decimals, , 99.925. Fractions may not be used. It is urged that tenders be on the printed forms and forwarded in the special envelopes which be supplied by Federal Reserve Banks or Branches on application efor.

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

submit tenders except for their own account. Tenders will be recei without deposit from incorporated banks and trust companies and fro responsible and recognized dealers in investment securities. Tende 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 ran of accepted bids. Only those submitting competitive tenders will b advised of the acceptance or rejection thereof. The Secretary of t Treasury expressly reserves the right to accept or reject any or al tenders, in whole or in part, and his action in any such respect sh be final. Subject to these reservations, noncompetitive tenders 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 comple at the Federal Reserve Bank on March 18, 1971, in cash or other immediately available funds or in a like face amou Treasury bills maturing March 18, 1971. Cash and exchange te 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 C of 1954 the amount of discount at which bills issued hereunder are is considered to accrue when the bills are sold, redeemed or otherw disposed of, and the bills are excluded from consideration as capit assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder must include in his income ta 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 matu during the taxable year for which the return is made.

Treasury Department Circular No. 418 (current revision) and tl 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.

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

FOR IMMEDIATE RELEASE March 10, 1971

TREASURY ISSUES DUMPING FINDING WITH RESPECT TO TELEVISION RECEIVING SETS, MONOCHROME AND COLOR, FROM JAPAN

Assistant Secretary of the Treasury Eugene T. Rossides announced that the Treasury Department has issued a dumping finding with respect to television receiving sets, monochrome and color, from Japan. The finding is being published in today's Federal Register.

On December 5, 1970, the Treasury Department advised the Tariff Commission that television receiving sets, monochrome and color, from Japan were being sold at less than fair value within the meaning of the Antidumping Act, 1921, as amended.

On March 4, 1971, the Tariff Commission issued a determination that an industry in the United States is being injured by reason of the importation of television receiving sets, monochrome and color, from Japan sold, or likely to be sold, at less than fair value within the meaning of the Antidumping Act, 1921, as amended.

After these two determinations, the finding of dumping automatically follows as the final administrative requirement in antidumping investigations.

During the period January 1967 through December 1970, the value of television imports from Japan totaled about $991,367,000 broken down approximately as follows:

	Black & White Sets	Color Sets
1967	$ 65,731,000	$ 52,321,000
1968	$ 80,784,000	$104,915,000
1969	$111,928,000	$138,688,000
1970	$120,000,000	$135,000,000

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Department of the TREASURY

NGTON, D.C. 20220 TELEPHONE W04-2041

NEWS

ADVANCE FOR RELEASE AMs
THURSDAY, MARCH 11, 1971

UNITED STATES AND JAMAICA TO RESUME DISCUSSIONS OF NEW INCOME TAX CONVENTION

The Treasury Department announced today that representatives of the United States and Jamaica will meet in Kingston in the near future to resume discussions begun in 1967 on revision of the income tax treaty between the two countries.

The forthcoming discussions are expected to focus on a narrow range of issues, primarily the taxation of dividends, interest and royalties, leading to a supplementary protocol to amend the present treaty in these limited areas. The need for these treaty changes grows out of recent modifications in Jamaican tax law.

It is also expected that agreement on an amendatory protocol will be followed by a resumption of broader negotiations on a new treaty to replace the existing treaty.

Persons wishing to offer comments or suggestions concerning the Jamaican negotiations, both with respect to the limited range of issues under current discussion and with respect to the broader issues of a new treaty, should send their views before March 31, 1971, to Assistant Secretary of the Treasury Edwin S. Cohen, U. S. Treasury Department, Washington, D. C. 20220.

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

NEWS

FOR RELEASE ON DELIVERY

STATEMENT BY THE HONORABLE JOHN B. CONNALLY
SECRETARY OF THE TREASURY
BEFORE THE SENATE COMMITTEE ON APPROPRIATIONS
WEDNESDAY, MARCH 10, 1971, AT 10:00 A.M.

I am happy to appear before this Committee this morning :o support continued funding for development of two)rototype supersonic airplane transports, as proposed in the 'resident's budget.

My concerns are principally two:

1. The problems of maintaining the development of our technology, and

2. The impact of commercial supersonic aircraft on our balance of payments position.

Many of the advantages our industry enjoys today are :he result of our technological superiority. Two examples 'ill illustrate the point. Our farmers are the most :fficient in the world, producing many times more per man-'ear than other countries. The average United States farm 'orker's output is $6,290 per year, compared with $2,010 er worker in the common market countries, according to the 'epartment of Agriculture. As a result, we are able to xport tons and tons of farm products annually. Aircraft anufacture, the industry center stage here today, is nother prime example of our technological advantage. Most f the people, mail and freight transported through the ir today are flown in American-built airframes powered by merican-built engines. Our export sales of aircraft of all ypes in the last ten years totaled over $10.6 billion, which warfs the $4.6 billion in sales of the rest of the world ombined.

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I believe some basic elements of the SST problem are evident. First, we do know that the technology to build the airplane exists here, in France and England, and in Russia.

Second, large amounts of public money have already been invested in the plane.

Third, given the technology and the investment, someone is going to build and sell those planes.

Finally, we can be confident that the present versions of the SST won't be the last advance. There will be a new generation of faster airplanes or some other type of aircraft.

If we miss out on the experience of building the prototypes for this generation of airplane, I have serious doubts that we will be able to hold together the scientists, the engineers, and the know-how to build the next generation. Others will have the advantage of investment and keeping on top of the necessary technology. They will be better placed for vying competitively on the frontiers of new knowledge.

The United States cannot afford to forfeit world leadership in an area as vital as transport aircraft. This leadership is important not only because of the skills it employs and the jobs it creates today. It also represents the kind of technological achievement that will have fall-out in other important areas in the future.

It is shortsighted to hope or assume that there will be no Concorde if we do not build our aircraft. The weight of the evidence, including the two flying versions of the French-British Concorde, clearly indicates the contrary. Faced with the possibility that there is going to be a Concorde, we have the responsibility of considering the broad national interest of the United States in all its aspects. There is certainly controversy over whether the first versions of the Concorde will be economical. But I'm confident that the economics and technology can be brought together in the future. It is more a question of who than whether.

The relationship of the SST/Concorde development to our balance of payments is a vital area of national interest.

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First, if the Concorde is sold commercially and we do
ıt have the SST to offer, our carriers will have to import
ıme of the foreign planes to maintain their competitive
ısition. While I cannot forecast precisely, the impact
: such purchases will be substantially adverse on our
ade balance. The Department of Transportation estimates
ıports of $7 billion to $12 billion through 1990 in the
ısence of a domestic SST. The timing of the over-all
ılance of payments cost could be delayed over a longer
ıriod by whatever financing terms our carriers receive
om abroad, but these costs are bound to be substantial.

On the other hand, with an SST to sell, it has been
timated the United States could improve its gross exports
the order of $10 billion. Combined with a saving of
billion to $12 billion on imports, the net gain on our
ade account over the next twenty years would be some
7 billion to $22 billion.

Obviously, balance of payments forecasting so far
ead has many uncertainties. But our review of the
timates confirm that -- given an SST capability abroad --
is order of magnitude of impact is reasonable.

A special feature of the President's SST program is
at it is designed to achieve technical progress while
oviding adequate prctection to our environment through
sting with the two prototypes.

At this point, I don't think anyone knows exactly what
pact the SST will have on the environment. We won't know
til we try them out on an experimental basis. The two
ototypes will provide that opportunity. They will help
oduce the technical information necessary to minimize any
vironmental impact and balance benefits against any dis-
vantages.

By venturing to experiment, by venturing to gain know-
dge, we venture to improve the quality of life.

In summary, we dare not be so timid as to not produce
SST on an experimental basis. If it benefits commercial

aviation, as we have every reason to believe it will in the foreseeable future, the United States will be in a position to maintain its aviation leadership to the benefit of our national security, economy, and balance of payments. The prototype program will enable us to discover the factual impact of supersonic travel on the environment and will provide us with the means to find the knowledge to eliminate or minimize any adverse results.

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

SHARING FEDERAL REVENUES WITH STATE AND LOCAL GOVERNMENT

by

Murray L. Weidenbaum
Assistant Secretary of the Treasury for Economic Policy

A paper to be presented before a
Conference of Taxpayers Associations,
Washington, D. C.,
March 9, 1971

The financial crisis now confronting so many of our cities and other state and local governments is very real. One has only to read the recent statements of some of the mayors of our largest cities to realize the depth and dimension of the almost overwhelming economic, financial, social, and political problems that threaten the vitality if not the very existence of major portions of the Federal system.

Mayor Kenneth Gibson has provided such a straightforward but inherently dramatic account of Newark's financial condition:

> "Upon taking office in July 1970, I found an estimated deficit for 1971 of over 70 million dollars, or over 40 percent of the budget. The budget crisis was brought on by a 10 percent decrease in city revenues and an increase of $50 million in expenditures ... largely the result of mandated appropriations for essential municipal services. To fill this gap through increased property taxes, we would have had to raise the present rate, already

> one of the highest in the nation, by
> 50 percent... After months of study and
> consultation, we finally opted for a series
> of taxes on Newark's businesses and consumers... We are aware that these are
> highly discriminatory and regressive taxes ...
> but we had no alternative."

Of course, there is a real and effective alternative, and this article will be presenting it. However, we must realize the inadequacy and often the perversity of the many prior attempts by the Federal Government to solve or even ameliorate the kinds of problems faced by Newark and other state and local governments.

This is not an after-the-fact rationalization of a specific recommendation. On the contrary, that was the conclusion of many years of prior study and experience on the part of those who have been most active in designing the revenue sharing approach.

In my own case, I arrived at such findings in the research that I did while still in the private sector:

> "The question arises inevitably as to the
> extent the grant-in-aid system is converting
> the states into veritable agents of the
> Federal Government. Is there the possibility
> that the states may become the civilian counterparts to the arsenal-like, government-oriented
> corporations in the military sphere? The

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> actual extent to which Federal control and influence are exercised varies substantially both by program and region, but the cumulative effect is quite substantial." 1/

That conclusion was hardly unique and is generally shared by those who have worked with or studied grant-in-aid programs. The real challenge, of course, is to come up with alternatives superior to the status quo. Most of the alternatives to revenue sharing that have been suggested recently are not new; in fact, they are precisely the ones that had been considered and, after careful examination, rejected.

It is clear that further direct Federal assumption of local program responsibility or greater expansion of the categorical grant-in-aid system would fundamentally be futile in dealing with the underlying problems facing our state and local governments. To pump substantially more Federal dollars into the proliferating maze of narrow programs represents merely a reecho of that tired and ineffective response.

Furthermore, this extremely expensive suggestion is now being made by those who have questioned where the Nation will

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1/ M. L. Weidenbaum, The Modern Public Sector, New York, Basic Books, Inc., 1969, p. 15.

get the money for revenue sharing; the inconsistency in their argument is striking, even though perhaps unintentional.

Similarly, Federal tax credits for state and local income tax payments, may seem like an easy response to this difficult question, but they do not hold up under examination as an effective device for bolstering the financial resources of state and local government. Although no Federal funds would go directly to state or local governments, Federal revenues would be reduced immediately.

There seems to be great ignorance as to how a tax credit works. Nobody is suggesting a 100 percent credit for state and local income taxes against a person's Federal tax liability -- for that would almost amount to a blank check on the Treasury. On the other hand, those who suggest a credit as low as 10 percent, apparently do not understand the Federal tax system. Many taxpayers would be better off by merely taking the existing deduction for state and local taxes.

In any event, hard pressed states and localities would only benefit to the extent that a credit toward the Federal income tax softens taxpayer resistance and thus enables state and local governments to institute or raise income

taxes above the levels otherwise politically acceptable. Dollar for dollar, revenue sharing will be more effective in channeling financial resources to states, cities, and counties. Clearly, a Federal credit for state and local income taxes will do little to help local governments who derive the bulk of their revenues from the property tax. At best, the benefits would be distributed in an uneven, hit-and-miss fashion.

The revenue sharing proposal was very painstakingly developed. Many man-months of time and effort went into its design. The details were carefully worked out with knowledgeable representatives of Federal, state and local governments, with private citizens, and with Democrats, Republicans, and Independents. In both concept and detail, it is a thoughtful and nonpartisan plan offered in good faith.

Hence, the overall favorable response has been heartening. Yet, I confess a sense of dismay at the nature of some of the specific reactions. I am concerned over the kind of intellectual environment in which there is a ready desire to believe the worst and a strong reluctance to accept facts demonstrating the contrary. The case in point is the role of the central cities in revenue sharing.

It has repeatedly been shown that the central city tends to get a larger share -- not just a larger total share but a larger per capita share -- than suburban communities. That is true in each of the 25 largest metropolitan areas in this Nation. Yet, we still see or hear the inaccurate charge that the Administration's revenue sharing proposal funnels the bulk of the money away from the central cities. There seems almost to be a Gresham's law operating here -- bad information drives out good.

The factor determining the allocation of general revenue sharing among the cities and counties of a state is the respective jurisdiction's share of the revenues raised by all cities and counties in the state. As it turns out, time and again, the larger the city, the larger the per capita revenues it raises, and hence, the larger the per capita share of revenue sharing that it will receive.

Some have suggested that they would like to respond favorably to revenue sharing but are reluctant to breach the alleged principle of avoiding the separation of the taxing power from the spending power. Certainly, the $30 billion of Federal grants-in-aid this year represent a massive breach of that principle.

Of course, the significant distinction between revenue sharing and the current aid system is the delegation of decision making. Given the gravity of the situation, we do not hesitate to approach what is certainly the most powerful legislative body in the world and suggest that $5 billion out of a $229 billion Federal budget be allocated for state and local decision making. Perhaps that earlier principle is more pertinent -- noblesse oblige.

There are three basic points to revenue sharing that need to be emphasized.

1. A modest portion of the annual growth in Federal revenues is earmarked for general aid to state and local governments. These funds will come from the automatic expansion in budget receipts as the economy grows. Contrary to many inaccurate reports, general revenue sharing will neither require a rise in tax rates nor a reduction in any existing government programs.

2. The revenue sharing money is distributed to each state, city and county in a fair and equitable manner. The allocation is made according to the precise formulas contained in the Federal statute rather than subject to the discretion of any Executive Branch official. As the money is in addition

to existing programs, each state, city and county benefits directly; each receives revenue sharing in addition to any benefits, services or money it is now obtaining from the Federal Government.

3. <u>The states, cities, and counties receiving the money will make the decisions as to which purposes the funds should be directed</u>. The Federal Government will not second-guess the local determination of local priorities. Financia reporting to the Treasury will be required simply to assure that the money is spent for a lawful governmental purpose and in a non-discriminatory manner. The local voters, rathe than any Federal official, will review the wisdom and effectiveness of the expenditures.

Revenue sharing is a constructive, highly desirable method for strengthening our hard-pressed state and local governments while decentralizing the public sector; it is the most appropriate mechanism available.

partment of the TREASURY NEWS

TON, D.C. 20220 TELEPHONE W04-2041

FOR IMMEDIATE RELEASE

March 12, 1971

TREASURY ISSUES DUMPING FINDING WITH RESPECT TO FERRITE CORES (OF THE TYPE USED IN CONSUMER ELECTRONIC PRODUCTS) FROM JAPAN

Assistant Secretary of the Treasury Eugene T. Rossides announced that the Treasury Department has issued a dumping finding with respect to ferrite cores (of the type used in consumer electronic products) from Japan. The finding will be published in the Federal Register of Saturday, March 13, 1971.

On October 26, 1970, the Treasury Department advised the Tariff Commission that ferrite cores (of the type used in consumer electronic products) from Japan were being sold at less than fair value within the meaning of the Antidumping Act, 1921, as amended.

On January 28, 1971, the Tariff Commission issued a determination that an industry in the United States is being injured by reason of the importation of ferrite cores (of the type used in consumer electronic products) from Japan sold, or likely to be sold, at less than fair value within the meaning of the Antidumping Act, 1921, as amended.

After these two determinations, the finding of dumping automatically follows as the final administrative requirement in antidumping investigations.

During the period January 1, 1970, through December 31, 1970, ferrite cores (of the type used in consumer electronic products) valued at approximately $700,000 were imported from Japan.

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epartment of the TREASURY NEWS

TON, D.C. 20220 TELEPHONE W04-2041

FOR IMMEDIATE RELEASE March 12, 1971

TREASURY ANNOUNCES PROPOSED RULES AND HEARING ON
LIBERALIZED DEPRECIATION SYSTEM

The Treasury Department today issued proposed regulations which would implement the liberalized system of depreciation for machinery, equipment and certain other property -- the Asset Depreciation Range or ADR System -- announced by President Nixon on January 11.

The proposed regulations will be published in the Federal Register for Saturday, March 13. A public hearing on the proposed regulations will be held beginning May 3, 1971.

Treasury's proposed rules provide asset depreciation ranges for various classes of assets first placed in service after December 31, 1970. A taxpayer may elect to base depreciation of an asset on any number of years within the designated range of years for that particular class. The election may be made annually and will apply to all eligible assets placed in service by the taxpayer in the taxable year of election for which a range is provided. After selecting the period of years, the taxpayer will determine his depreciation allowance under one of the methods presently permitted, such as the "straight line," "declining balance," or "sum of the years-digits" method.

Generally, the minimum and maximum of each asset depreciation range under the ADR System is from 20 percent shorter to 20 percent longer than the present "Guideline" lives specified by the Internal Revenue Service.

Once a taxpayer has selected a depreciation period for assets from within the ADR, neither he nor the Internal Revenue Service may thereafter change the period. Assets will have to be accounted for in item accounts or in group accounts by year placed in service -- "vintage accounts" -- according to the basis of classification of the assets in the ADR System.

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The "reserve ratio" test contained in Revenue Procedure 62-21 will not apply to assets depreciated under the proposed regulations.

The proposed regulations also provide first-year conventions for property for which the ADR System is elected. Under these conventions, the taxpayer may either treat all assets placed in service during the year as placed in service at the mid-point of the year, or treat those placed in service in the first half as placed in service at the beginning of the year and those placed in service in the second half as placed in service at the mid-point of the year. The Internal Revenue Service will accept such treatment as providing a reasonable allowance for depreciation.

New procedures relating to the salvage value, repair and maintenance and retirement of assets under the ADR System are also included in the new rules.

Traditionally, salvage value -- which is the amount estimated to be realized upon disposition of depreciable property when the taxpayer retires it from active service -- has been treated in a variety of ways. For example, salvage value has been reflected by reducing the amount subject to depreciation, by using a depreciation rate that takes into account the estimated salvage value, or by depreciating assets until salvage value is reached. This latter treatment is commonly used when the taxpayer uses the declining balance method of depreciation. However, an asset may never be depreciated below its estimated salvage value. The ADR System continues this latter rule, but simplifies and makes uniform the treatment of estimated salvage value for depreciation purposes.

Under the ADR System, the taxpayer is required to establish the amount of estimated salvage at the time assets are placed in service. He may then deduct an amount for depreciation without adjusting the rate for the estimated salvage value. He must stop depreciating the asset when salvage value is reached. Furthermore, in order to eliminate controversies over comparatively minor differences in estimates of salvage value, the proposed regulations provide that the taxpayer's estimate of salvage value (after application of section 167(f) of the Internal Revenue Code of 1954) will not be adjusted unless there is a final determination of an amount of salvage value which exceeds the taxpayer's estimate by more than 10 percent of the unadjusted basis of the property.

The proposed regulations also contain a new rule designed to eliminate controversies over whether expenditures for the repair, maintenance, rehabilitation, or improvement of depreciable property are to be capitalized or are to be deducted in the year paid or incurred. Under the proposed regulations the taxpayer may elect to treat certain of these expenditures as deductible up to an amount equal to one year's straight line depreciation on the vintage account provided he also agrees to capitalize, and recover through depreciation, the amount of any excess. The taxpayer is allowed to determine annually whether this "repair rule" will apply.

When assets are retired from vintage accounts the proposed regulations generally provide that no gain or loss will be recognized unless the retirement is an "extraordinary retirement," which is generally defined to include any retirement because of casualty or because of cessation or termination of a major portion of a trade or business. Proceeds from retirements other than "extraordinary retirements" will normally be added to the depreciation reserve for the account.

Certain public utility property -- primarily property of electric, water, telephone and gas utilities -- which was excluded from the ADR System as originally proposed on January 11, 1971, pending further study, will be permitted to be depreciated under the proposed regulations if certain conditions are met. Extension of the ADR System to these utilities will help to provide them needed capital for investment, and give them the same benefits of greater certainty and simplicity of the depreciation rules that will be available to other businesses.

Additional proposed regulations dealing with the application of "Guideline" depreciation under Revenue Procedure 62-21, including elimination of the "reserve ratio" test for taxable years ending after December 31, 1970, will be published in the near future. These regulations will provide, contrary to the Treasury announcement on January 11, 1971, that the "Guidelines" may be applied to years ending prior to January 1, 1971, even though they were not previously elected for such year, if the "reserve ratio test" is met for the year of application.

The proposed regulations are the first step in implementing the reform of depreciation policy announced on January 11. They

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will encourage businesses to increase their investment in new machinery and equipment and will help them accumulate the capital required for investment. This should help U.S. businesses to modernize their productive facilities, thereby strengthening the competitive position of U.S. goods in world markets. The new procedures contained in the proposed regulations will also significantly simplify and improve the administration and interpretation of the tax laws by the Internal Revenue Service.

Treasury estimates that, without giving any effect to any increase of tax revenues resulting from increased business activity, the changes in depreciation policy, including extension of the ADR System to utilities, will result in a reduction in Federal revenues of $0.8 billion in the fiscal year ending June 30, 1971, and of $3.0 billion in fiscal 1972, rising annually thereafter to a peak of $4.7 billion in fiscal 1976 and falling to $3.8 billion by fiscal 1980. However, the resulting increase in business activities is expected to generate substantial additional tax revenues to offset these reductions.

The revenue loss in fiscal year 1972 from the ADR System is $300 million more than had been contemplated in the President's budget message of January 29, 1971. Current trends in interest rates, however, indicate that fiscal year 1972 interest on the public debt will be about $500 million less than the budget estimate. Thus, total Federal outlays for fiscal year 1972 are still estimated to be within the total revenues the economy would produce at full employment.

DEPARTMENT OF THE TREASURY

INTERNAL REVENUE SERVICE

DEPRECIATION ALLOWANCES USING ASSET
DEPRECIATION RANGE SYSTEM

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. A public hearing will be held, and notice of the time, place, and date of the public hearing is simultaneously published herewith. The proposed regulations are to be issued under the authority contained in section 167 of the Internal Revenue Code of 1954 (26 U.S.C. 167) and section 7805 of the Internal Revenue Code of 1954 (26 U.S.C. 7805).

Commissioner of Internal Revenue

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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

Depreciation allowances using the
asset depreciation range system.

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:

The Income Tax Regulations (26 CFR Part 1) are amended as follows:

Paragraph 1. The following new section is added immediately after § 1.167 (a)-10, to read as follows:

§ 1.167 (a)-11 Depreciation based on asset depreciation ranges for property placed in service after December 31, 1970.

(a) In general. This section provides an asset depreciation range system for determining the reasonable allowance for depreciation of designated classes of assets placed in service after December 31, 1970. The system is designed to minimize disputes between taxpayers and the Internal Revenue Service as to the useful life of property, and as to salvage value, repairs, and other matters. The system is optional with the taxpayer. The taxpayer has an annual election. Generally, an election for a taxable year will apply to all additions of eligible property during the taxable year of election, but does not apply to additions of eligible property in any other taxable year. The taxpayer's election, made with the return for the taxable year, may not be revoked or modified for any property included in the election. Generally, the taxpayer must

establish vintage accounts for all eligible property included in the election, must determine the allowance for depreciation of such property in the taxable year of election, and in subsequent taxable years, on the basis of the period of years (within the asset depreciation range) specified in the election, and must apply the first-year convention specified in the election to determine the allowance for depreciation of such property. This section also contains special provisions for the treatment of salvage value, retirements, and the cost of the repair, maintenance, rehabilitation and improvement of such property. A taxpayer may not apply any provision of this section unless he makes an election and thereby consents to, and agrees to apply, all the provisions of this section. For the meaning of certain terms used in this section, see paragraphs (b) (2) ("eligible property"), (b) (3) ("vintage account"), (b) (4) ("asset depreciation range" and "asset guideline class"), (b) (5) (iii) (a) ("used property"), (b) (6) (i) ("public utility property"), (c) (1) (v) ("original use"), (c) (1) (vi) ("unadjusted basis" and "adjusted basis"), (c) (2) (ii) ("modified half-year convention"), (c) (2) (iii) ("half-year convention"),

(d) (1) (i) ("salvage value"), (d) (2) (ii) ("repair allowance"), (d) (2) (iv) ("excluded addition"), (d) (2) (v) ("property improvement"), (d) (3) (ii) ("ordinary retirement" and "extraordinary retirement"), and (e) (1) ("first placed in service") of this section.

(b) Reasonable allowance using asset depreciation ranges--(1) In general. The allowance for depreciation of eligible property (as defined in subparagraph (2) of this paragraph) to which the taxpayer elects to apply this section will be determined as provided in paragraph (c) of this section and shall constitute the reasonable allowance for depreciation of such property under section 167 (a).

(2) Definition of eligible property. For purposes of this section, the term "eligible property" means property which is subject to the allowance for depreciation provided by section 167 (a) but only if--

(i) An asset guideline class and period are in effect for such property for the taxable year of election (see subparagraph (4) of this paragraph);

(ii) The property is tangible personal property, or is other tangible property (not including a building or its structural components) which (a) is used as an integral part of manufacturing, production, or extraction or of furnishing transportation, communications, electrical energy, gas, water, or sewage disposal services, or (b) constitutes research or storage facilities used in connection with any of the activities described in (a) of this subdivision (but see subparagraph (6) of this paragraph for special rule for certain public utility property as defined in section 167 (ℓ) (3) (A));

(iii) The property is first placed in service (as described in paragraph (e) (1) of this section) by the taxpayer after December 31, 1970 (but see subparagraph (7) of this paragraph for special rule where there is a mere change in the form of conducting a trade or business);

(iv) During the taxable year of election, the property is predominantly used (within the meaning of paragraph (g) (1) (i) and (iii) of

§ 1.48-1) within the United States (as defined in section 7701 (a) (9)), or meets the requirements of paragraph (g) (2) of § 1.48-1 (relating to exceptions to the requirement of predominant use). See subparagraph (5) (v) of this paragraph for special rule in the case of change in predominant use.

The language used in subdivision (ii) of this subparagraph shall have the same meaning as when used in section 1245 (a) (3) (A) and (B). The term "eligible property" includes any property which meets the requirements of this subparagraph, whether such property is new property, "used property", or is a "property improvement" (as described in paragraph (d) (2) (v) of this section). For the treatment of expenditures for the repair, maintenance, rehabilitation or improvement of property in a vintage account, see paragraph (d) (2) (v) of this section.

(3) Requirement of vintage accounts--(i) In general. For purposes of this section, a "vintage account" is a closed-end depreciation account

containing eligible property to which the taxpayer elects to apply this section, first placed in service by the taxpayer during the taxable year of election. The "vintage" of an account refers to the taxable year during which the eligible property in the account is first placed in service by the taxpayer. Such an account will consist of an asset, or a group of assets, within a single asset guideline class established pursuant to subparagraph (4) of this paragraph and may include only eligible property. Each item of eligible property (except a property improvement as described in paragraph (d) (2) (v) of this section) to which the taxpayer elects to apply this section, first placed in service by the taxpayer during the taxable year of election, shall be placed in a vintage account of the taxable year of election. For special rules regarding property improvements, see paragraph (d) (2) (v) of this section. Any number of vintage accounts of a taxable year may be established. More than one account of the same vintage

may be established for different assets of the same asset guideline class.

(ii) Special vintage accounts. Property the original use of which does not commence with the taxpayer may not be placed in a vintage account which contains property the original use of which commences with the taxpayer. Property described in section 167 (f) (2) may not be placed in a vintage account with property not described in section 167 (f) (2). Property described in section 179 (d) (1) may not be placed in a vintage account with property not described in section 179 (d) (1). Property which qualifies for treatment under section 263 (e) may not be placed in a vintage account with property which does not qualify for treatment under section 263 (e). For special rule for property acquired in a transaction to which section 381 (a) applies, see paragraph (e) (3) (i) of this section. For additional rules with respect to accounting for eligible property, see paragraph (e) of this section.

(4) Asset depreciation ranges--(i) Selection of asset depreciation period. An election shall specify for each vintage account of the taxable year of election the period selected by the taxpayer from

the asset depreciation range for the assets in such account. For purposes of this section the term "asset guideline class" means a category of assets (including any subcategory of assets) for which a separate guideline period is in effect as provided in subdivision (ii) of this subparagraph. Any period within the asset depreciation range for the assets in a vintage account which is a whole number of years, or a whole number of years plus a half year, may be selected. The lower limit of the asset depreciation range for a vintage account is 80 percent of the asset guideline period established for the assets in the account, and the upper limit of such range is 120 percent of such asset guideline period, determined in each case by rounding any fractional part of a year to the nearer of the nearest whole year or the nearest half year.

(ii) Establishment of asset guideline classes and periods. The asset guideline classes and periods in effect for any taxable year beginning before the effective date of the first supplemental asset guideline classes and periods established pursuant to this

section are set forth in Part I of Revenue Procedure 62-21, 1962-2 C.B. 418 (as supplemented in 1963-2 C.B. 740, 1964-1 C.B. 639, and 1964-1 C.B. 640). Other asset guideline classes and periods will from time to time be established, supplemented and revised with express reference to this section. These asset guideline classes and periods will be published in the Internal Revenue Bulletin. The asset guideline classes, the asset guideline periods, and the asset depreciation ranges determined from such periods in effect on the first day of a taxable year of election shall apply to all vintage accounts of such taxable year, and the reasonable allowance for depreciation of property in such accounts shall not be changed to reflect any subsequent supplement or revision of the asset guideline classes or periods.

(iii) Examples. The principles of this subparagraph may be illustrated by the following examples:

Example (1). Corporation X purchases a bulldozer for use in its construction business. The bulldozer is first placed in service in 1972. Since the bulldozer is tangible personal property, predominantly used within the United States, for which an asset guideline class and period have been established, the bulldozer is eligible property. The bulldozer is covered under asset guideline class 2 (a) of Group Two under Revenue Procedure 62-21, and the asset guideline period is 5 years. Thus, the asset depreciation range is 4-6 years.

Example (2). In 1972 corporation Y first places in service a factory building. Although an asset guideline class and period are in effect for the property and it is predominantly used within the United States, it is not eligible property, since it does not meet the requirements of subparagraph (2) (ii) of this paragraph.

(5) Requirements of election--(i) In general. Except as otherwise provided in paragraph (d) (2) of this section dealing with property improvements, no provision of this section shall apply to any property other than eligible property to which the taxpayer elects, in accordance with this section, to apply this section. For

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the time and manner of election, see paragraph (f) of this section. Except as otherwise provided in subdivisions (iv) and (v) of this subparagraph, a taxpayer's election to apply this section may not be revoked or modified after the last day prescribed for filing the election. Thus, for example, after such day, a taxpayer may not cease to apply this section to property included in the election, establish different vintage accounts for the taxable year of election, select a different period from the asset depreciation range for any such account, or adopt a different first-year convention for any such account.

(ii) Property required to be included in election. Except as otherwise provided in subdivision (iii) of this subparagraph dealing with certain used property, in subdivision (iv) of this subparagraph dealing with property subject to special depreciation or amortization, and in paragraph (e) (3) (i) of this section dealing

with transactions to which section 381 (a) applies, if the taxpayer elects to apply this section to any eligible property first placed in service by the taxpayer during the taxable year of election, the election shall apply to all such eligible property, whether placed in service in a trade or business or held for production of income.

(iii) Special 10 percent used property rule. (a) If the unadjusted basis of eligible "used property" first placed in service by the taxpayer during the taxable year of election exceeds 10 percent of the unadjusted basis of all eligible property first placed in service during the taxable year of election, the taxpayer may exclude all (but not less than all) the eligible used property

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from the election to apply this section. For the purposes of this section, the term "used property" means property the original use of which does not commence with the taxpayer.

(b) Solely for the purpose of determining whether the 10 percent rule of this subdivision is satisfied, (1) used property first placed in service during the taxable year and subject to special depreciation or amortization provisions described in subdivision (iv) of this subparagraph and (2) property acquired during the taxable year in a transaction to which section 381 (a) applies, shall all be treated as used property regardless of whether such property would be treated as new property under section 167 (c) and the regulations thereunder.

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(iv) Property subject to special method of depreciation or amortization. (a) An election to apply this section shall not include any eligible property in an asset guideline class if for the taxable year of election the taxpayer computes depreciation under the unit of production, retirement or machine hour method or any other method not described in section 167 (b) (1), (2), or (3) for any eligible property first placed in service during the taxable year in such asset guideline class. In addition, an election to apply this section shall not include eligible property for which, for the taxable year of election, the taxpayer computes depreciation under section 167 (k), or computes amortization under section 169, 184, 185, 187, or paragraph (b) of § 1.162-11.

(b) If the taxpayer has elected to apply this section to eligible property described in section 167 (k), 169, 184, 185, or 187 and the taxpayer thereafter computes depreciation or amortization for such property for any taxable year in accordance with section 167 (k), 169, 184, 185, or 187, then the election to apply this section to such property shall terminate as of the

beginning of the taxable year for which depreciation or amortization is computed under such section. Application of this section to such property for any period prior to the termination date will not be affected by the termination. The unadjusted basis of the property shall be removed as of the termination date from the unadjusted basis of the vintage account. The depreciation reserve established for the account shall be reduced by the depreciation allowable for the property, computed in the manner prescribed in paragraph (c) (1) (vi) (b) of this section for determination of the adjusted basis of the property and shall be further adjusted in the manner prescribed in paragraph (d) (3) (vi) of this section. See paragraph (d) (3) (vii) (d) of this section for treatment of salvage value when property is removed from a vintage account.

(v) Change in predominant use of eligible property. If eligible property in a vintage account ceases to meet the requirements of paragraph (g) (1) (i) and (iii) or (g) (2) of § 1.48-1 (relating to requirement of predominant use within the United States) for a taxable year, the election to apply this section to such property shall terminate as of the beginning of such taxable year. The application of this section to such property for a period prior to the termination date will not be affected. The unadjusted basis of the property shall be removed as of the termination date from the unadjusted basis of the vintage account. The depreciation reserve established for the account shall be reduced by the depreciation allowable for the property, computed in the manner prescribed in paragraph (c) (1) (vi) (b) of this section for determination of the adjusted basis of the property and shall be further adjusted in the manner prescribed in paragraph (d) (3) (vi) of this section. See paragraph (d) (3) (vii) (d) of this section for treatment of salvage value when property is removed from a vintage account.

(6) <u>Special rule for certain public utility property</u>--(i) <u>Requirement of normalization in certain cases</u>. Under section 167 (ℓ), in the case of public utility property (as defined in section 167 (ℓ) (3) (A)), if the taxpayer--

(<u>a</u>) Is entitled to use a method of depreciation other than a "subsection (ℓ) method" of depreciation (as defined in section 167 (ℓ) (3) (F)) only if it uses the "normalization method of accounting" (as defined in section 167 (ℓ) (3) (G)) with respect to such property, or

(<u>b</u>) Is entitled to use only a "subsection (ℓ) method" of depreciation,

such property shall be eligible property (as defined in subparagraph (2) of this paragraph) only if the taxpayer normalizes the tax deferral resulting from the election to apply this section.

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(ii) Normalization. The taxpayer will be considered to normalize the tax deferral resulting from the election to apply this section only if it computes its tax expense for purposes of establishing its cost of service for rate making purposes and for reflecting operating results in its regulated books of account using a depreciation period no less than the lesser of--

(a) 100 percent of the asset guideline period as described in subparagraph (4) (ii) of this paragraph, or

(b) The period for computing its depreciation expense to reflect operating results on its regulated books of account,

and makes adjustments to a reserve to reflect the deferral of taxes resulting from an election to apply this section. A determination whether the taxpayer is considered to normalize (within the meaning of the preceding sentence) the tax deferral resulting from an election to apply this section shall be made in a manner consistent with the principles for

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determining whether a taxpayer is using the "normalization method of accounting" (within the meaning of section 167 (l) (3) (G)).

(iii) Failure to normalize. If the taxpayer has elected to apply this section to any eligible public utility property in accordance with subdivision (i) of this subparagraph and the taxpayer thereafter fails to normalize the tax deferral resulting from the election to apply this section, the election to apply this section to such property shall terminate as of the beginning of the taxable year for which the taxpayer fails to normalize the tax deferral resulting from the election to apply this section. Application of this section to such property for any period prior to the termination date will not be affected by the termination. The unadjusted basis of the property shall be removed as of the termination date from the unadjusted basis of the vintage account. The depreciation reserve established for the account shall be reduced by the depreciation allowable for the property, computed in the manner prescribed in

paragraph (c) (1) (vi) (b) of this section for determination of the adjusted basis of the property and shall be further adjusted in the manner prescribed in paragraph (d) (3) (vi) of this section. See paragraph (d) (3) (vii) (d) of this section for treatment of salvage value when property is removed from a vintage account.

(7) Mere change in form of conducting a trade or business. Property which was first placed in service by the transferor before January 1, 1971, shall not be eligible property if such property is first placed in service by the transferee after December 31, 1970, by reason of a mere change in the form of conducting a trade or business in which such property is used. A mere change in the form of conducting a trade or business in which such property is used will be considered to have occurred if--

(i) The transferor (or in a case where the transferor is a partnership, estate, trust, or corporation, the partners, beneficiaries, or shareholders) of such property retains a substantial interest in such trade or business, or

(ii) The basis of such property in the hands of the transferee is determined in whole or in part by reference to the basis of such property in the hands of the transferor.

This subparagraph shall not apply to a transfer of property to which paragraph (e) (3) (i) (relating to transfers to which section 381 (a) applies) applies. For purposes of this subparagraph, a transferor (or in a case where the transferor is a partnership, estate, trust, or corporation, the partners, beneficiaries, or shareholders) shall be considered as having retained a substantial interest in the trade or business only if, after the change in form, his (or their) interest in such trade or business is substantial in relation to the total interest of all persons in such trade or business. This subparagraph shall apply to property first placed in service prior to January 1, 1971, held for the production of income (within the meaning of section 167 (a) (2)) as well as to property held in a trade or business.

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(c) Manner of determining allowance--

(1) In general--(i) Computation of allowance. The allowance for depreciation of property in a vintage account shall be determined in the manner specified in this paragraph by using the method of depreciation adopted by the taxpayer for the account and a rate based upon the period for the account selected by the taxpayer from the asset depreciation range. (For limitations on methods of depreciation permitted with respect to property, see section 167 (c) and subdivision (v) of this subparagraph.) In applying the method of depreciation adopted by the taxpayer, the annual allowance for depreciation of a vintage account shall be determined without adjustment for the salvage value of the property in such account except that no account may be depreciated below the reasonable salvage value of the account. (For rules regarding estimation and treatment of salvage value, see paragraph (d) (1) and (3) (vii) of this section.)

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(c) Manner of determining allowance--
(1) In general--(i) Computation of allowance.
The allowance for depreciation of property in a vintage account shall be determined in the manner specified in this paragraph by using the method of depreciation adopted by the taxpayer for the account and a rate based upon the period for the account selected by the taxpayer from the asset depreciation range. (For limitations on methods of depreciation permitted with respect to property, see section 167 (c) and subdivision (v) of this subparagraph.) In applying the method of depreciation adopted by the taxpayer, the annual allowance for depreciation of a vintage account shall be determined without adjustment for the salvage value of the property in such account except that no account may be depreciated below the reasonable salvage value of the account. (For rules regarding estimation and treatment of salvage value, see paragraph (d) (1) and (3) (vii) of this section.)

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Regardless of the method of depreciation adopted by the taxpayer, the depreciation allowable for a taxable year with respect to a vintage account may not exceed the amount by which (as of the beginning of the taxable year) the unadjusted basis of the account exceeds (a) the reserve for depreciation established for the account plus (b) the salvage value of the account. The unadjusted basis of a vintage account is defined in subdivision (vi) of this subparagraph. The adjustments to the depreciation reserve are described in subdivision (ii) of this subparagraph. The annual allowance for depreciation of a vintage account using the straight line method of depreciation shall be determined by dividing the unadjusted basis of the vintage account (without reduction for salvage value) by the number of years in the asset depreciation period selected for the account. See subdivision (iii) of this subparagraph for the manner of computing the depreciation allowance following a change

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from the declining balance method or the sum of the years-digits method to the straight line method. In the case of the sum of the years-digits method, the annual allowance for depreciation of a vintage account shall be computed by multiplying the unadjusted basis of the vintage account (without reduction for salvage value) by a fraction, the numerator of which changes each year to a number which corresponds to the years remaining in the asset depreciation period selected for the account (including the year for which the allowance is being computed) and the denominator of which is the sum of all the years digits corresponding to the asset depreciation period selected for the account. The annual allowance for depreciation of a vintage account using a declining balance method is determined by

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applying a uniform rate to the excess of the unadjusted basis of the vintage account over the depreciation reserve established for that account. The rate under the declining balance method may not exceed twice the straight line rate based upon the asset depreciation period for the vintage account. The allowance for depreciation under this paragraph (including any depreciation allowed under section 179) shall constitute the amount of depreciation allowable for all purposes of this section.

(ii) Establishment of depreciation reserve. The taxpayer must establish a depreciation reserve for each vintage account. The amount of the depreciation reserve for a vintage account must be stated on each income tax return on which depreciation with respect to such account is determined under this section. The depreciation reserve for a vintage account consists of the accumulated depreciation allowable with respect to the vintage account, increased by the adjustments for ordinary retirements prescribed by paragraph (d) (3) (iii), by the adjustments for property improvements prescribed by

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paragraph (d) (3) (vi), and by the adjustments for reduction of the salvage value of a vintage account prescribed by paragraph (d) (3) (vii) (c) of this section, and decreased by the adjustments for property improvements prescribed by paragraph (d) (2) (v) of this section, by the adjustments for extraordinary retirements and certain special retirements as prescribed by (d) (3) (iv) and (v) of this section, by the adjustments for the amount of the reserve in excess of the unadjusted bases of a vintage account prescribed by paragraph (d) (3) (viii) (a), and by the adjustments for property removed from a vintage account prescribed by paragraph (b) (5) (iv) (b) and (v) and paragraph (b) (6) (iii) of this section. The adjustments to the depreciation reserve for the cost of property improvements paid or incurred during the taxable year and for ordinary retirements during the taxable year shall be made as of the beginning of the taxable year. The adjustments to the depreciation reserve for extraordinary retirements shall be made as of the date the

retirement is treated as having occurred in accordance with the first-year convention (described in subparagraph (2) of this paragraph) adopted by the taxpayer for the vintage account. The adjustment to the depreciation reserve for property removed from a vintage account

in accordance with paragraph (b) (5) (iv) and (v) and paragraph (b) (6) (iii) of this section shall be made as of the beginning of the taxable year. The depreciation reserve of a vintage account may not be decreased below zero.

(iii) Consent to change in method of depreciation. During the asset depreciation period for a vintage account, the taxpayer is permitted to change under this section from a declining balance method of depreciation or the sum of the years-digits method of depreciation to the straight line method of depreciation with respect to such account. The provisions of § 1.167 (e)-1 shall not apply to such change. The change in method applies to all property in the vintage account and must be adhered to for the entire taxable year of the change. When the change is made, the annual allowance for depreciation of the vintage account shall be determined by dividing the adjusted basis of the vintage account

(without reduction for salvage value) by the number of years remaining (at the time as of which the change is made) in the asset depreciation period selected for the account. However, the depreciation allowable for any taxable year following such a change may not exceed an amount determined by dividing the unadjusted basis of the vintage account (without reduction for salvage value) by the number of years in the asset depreciation period selected for the account. The taxpayer shall furnish a statement setting forth the vintage accounts for which the change is made with the income tax return filed for the taxable year of the change.

(iv) Limitation of annual allowance after expiration of the asset depreciation period. The annual allowance for depreciation for any taxable year beginning after the end

of the asset depreciation period selected for the vintage account shall be determined by dividing the unadjusted basis of the vintage account (without reduction for salvage value) by the number of years in the asset depreciation period selected for the account. However, the depreciation allowable for any such taxable year may not exceed the amount by which (as of the beginning of the taxable year) the unadjusted basis of the vintage account exceeds (a) the reserve for depreciation established for such account plus (b) the salvage value of the account.

(v) Limitations on methods. The same method of depreciation must be adopted for all property in a single vintage account. Generally, the method of depreciation which may be adopted is subject to the limitations contained in section 167 (c). In the case of a vintage account for which the taxpayer has selected an asset depreciation period of 3 years or more and which contains property the original use of which commences with the taxpayer, any method of depreciation described in section 167 (b) (1), (2) or (3) may be adopted. If the vintage account contains property the original use of which does not commence

with the taxpayer, or if the asset depreciation period for the account selected by the taxpayer is less than 3 years, a method of depreciation described in section 167 (b) (2) or (3) may not be adopted for the account. However, the declining balance method using a rate not in excess of 150 percent of the straight line rate based upon the asset depreciation period for the vintage account may be adopted for the account even if the original use of the property does not commence with the taxpayer provided the asset depreciation period for the account selected by the taxpayer is at least 3 years. The term "original use" means the first use to which the property is put, whether or not such use corresponds to the use of such property by the taxpayer. (See § 1.167 (c)-1.)

(vi) Unadjusted and adjusted basis. (a) For purposes of this section, the unadjusted basis of an asset is its cost or other basis without any adjustment for depreciation, amortization, or a property improvement (as defined in paragraph (d) (2) (v) of this section), but with other adjustments required under section 1016 or other applicable provisions

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of law. The unadjusted basis of a property improvement (as defined in paragraph (d) (2) (v) of this section) is its cost or other basis without adjustment for depreciation or amortization, but with other adjustments required under section 1016 or other applicable provisions of law. The unadjusted basis of a vintage account is the total of the unadjusted bases of all the assets in the account.

(b) The adjusted basis of a vintage account is the amount by which the unadjusted basis of the account exceeds the reserve for depreciation established for the account. The adjusted basis of an asset (other than a property improvement the cost or other basis of which was subtracted from the depreciation reserve) in a vintage account is the amount by which the unadjusted basis of the asset exceeds the amount of depreciation allowable for the asset computed by using the method of depreciation and the rate (including any depreciation

allowed under section 179 for the asset) applicable to the account. The adjusted basis of a property improvement the cost of which was subtracted from the depreciation reserve for a vintage account is the amount by which the unadjusted basis of the property improvement exceeds the amount of depreciation allowable for the property improvement computed by using the method of depreciation and the rate applicable to the account beginning with the taxable year in which the cost of the property improvement is paid or incurred. For purposes of this subdivision, the depreciation allowable for an asset shall include, to the extent identifiable, the amount of proceeds previously added to the depreciation reserve in accordance with paragraph (d) (3) (iii) of this section upon the retirement of any portion of such asset.

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(vii) Example. Principles of this section may be illustrated by the following example:

Example. (a) Taxpayer A has a multiple asset vintage account with an unadjusted basis of $1,000 and an estimated salvage value of $100. (See paragraph (d) (1) (i) of this section for determination of salvage value for an account after application of section 167 (f).) A adopts the straight line method of depreciation with respect to the account and selects a 10-year asset depreciation period. Assume that A does not follow a practice of reducing the salvage value for the account in the amount of salvage value attributable to each retired asset in accordance with paragraph (d) (3) (vii) of this section. The depreciation allowance for each of the first 4 years is $100, that is 1/10 multiplied by the unadjusted basis of $1,000, without reduction for salvage.

(b) In the fifth year of the asset depreciation period, three assets are sold in an ordinary retirement for $600. Thus, under paragraph (d) (3) (iii) of this section, the proceeds of the retirement are added to the depreciation reserve as of the beginning of the fifth year. Accordingly, the reserve, as of the beginning of the fifth year is $1,000, that is, $400 of depreciation as of the beginning of the year plus $600 from ordinary retirements. The salvage value is reduced to zero, since the proceeds of the ordinary retirement increase the depreciation reserve up to the unadjusted basis (see paragraphs (d) (1) (i) and (d) (3) (iii) of this section) and no depreciation is allowed for the fifth year.

(c) In the sixth year, another asset is sold in an ordinary retirement for $50. The full amount ($50) is reported as gain, without regard to the adjusted basis of the asset, and is subject to section 1245 (see paragraph (d) (3) (viii) of this section). No depreciation is allowable for the sixth year, since the depreciation reserve ($1,000) plus the salvage value (zero) equals the unadjusted basis ($1,000).

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(d) In the seventh year the taxpayer makes a property improvement, which reduces the depreciation reserve by $300, and sells another asset in an ordinary retirement for $40. The $300 property improvement reduces the reserve as of the beginning of the year (see paragraph (c) (1) (ii) of this section) and the $40 proceeds from the ordinary retirement increase the reserve as of the beginning of the year. Thus, the reserve is reduced as of the beginning of the seventh year to $740 (that is, $1,000 minus $300 plus $40) and accordingly $100 of depreciation (that is, 1/10 multiplied by $1,000, the unadjusted basis of the account) is allowed for the seventh year. The $100 of depreciation allowed for the seventh year increases the reserve to $840 as of the close of the seventh year.

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(e) In the eighth year, asset X is sold in an extraordinary retirement for $30 and gain or loss is recognized. Under the convention used by the taxpayer, the unadjusted basis of X, $100, is removed from the unadjusted basis of the vintage account as of the beginning of the eighth year and the depreciation reserve as of the beginning of such year is reduced to $770 by removing the depreciation applicable to asset X, $70 (see paragraph (d) (3) (iv)). The depreciation which is allowable under the straight line method for the eighth year is $90, that is 1/10 multiplied by $900 (the unadjusted basis of the account, $1,000, reduced by the unadjusted basis of X, $100). The depreciation allowed ($90) increases the depreciation reserve to $860.

(f) In the ninth year, an asset is sold in an ordinary retirement for $60. This increases the reserve to $920, and $20 is reported as gain without regard to the adjusted basis of the asset and is subject to section 1245. (See paragraph (d) (3) (viii) of this section.) No depreciation is allowable in the ninth year, since the sum of the depreciation reserve, $900, plus the estimated salvage value, zero, equals the unadjusted basis of the account, $900.

(g) In the tenth year, the taxpayer makes a $200 property improvement which decreases the reserve to $700. The depreciation allowance in the tenth and eleventh year is $90, that is, 1/10 multiplied by $900, the unadjusted basis of the account.

(h) At the beginning of the twelfth year, the depreciation reserve is $880. In the twelfth year, the depreciation allowable is only $20, that is, the difference between the unadjusted basis of the account ($900) and the depreciation reserve ($880), plus salvage value (zero).

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(2) Conventions applied to additions and retirements--(i) In general. The allowance for depreciation of a vintage account (whether an item account or a multiple asset account) shall be determined by applying one of the conventions described in subdivision (ii) and (iii) of this subparagraph. (For the manner of applying a convention in the case of taxable years beginning before and ending after December 31, 1970, see subparagraph (3) of this paragraph.) The same convention must be adopted for all vintage accounts of a taxable year, but the same convention need not be adopted for the vintage acccounts of another taxable year. An election to apply this section must specify the convention adopted. (See paragraph (f) of this section for information required in making the election.) The convention adopted by the taxpayer is a method of accounting for purposes of section 446, but the consent of the Commissioner will be deemed granted to make an annual adoption of either of the conventions described in subdivision (ii) and (iii) of this subparagraph.

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(ii) Modified half-year convention. The depreciation allowance for a vintage account for which the taxpayer adopts the "modified half-year convention" shall be determined by treating: (a) all property in such account which is placed in service during the first half of the taxable year as placed in service on the first day of the taxable year; and (b) all property in such account which is placed in service during the second half of the taxable year as placed in service on the first day of the second half of the taxable year. The depreciation allowance for a vintage account for a taxable year in which there is an extraordinary retirement (as defined in paragraph (d) (3) (ii) of this section) is determined by treating all extraordinary retirements from such account during

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the first half of the taxable year as occurring on the first day of the taxable year and all extraordinary retirements from such account during the second half of the taxable year as occurring on the first day of the last half of the taxable year. Thus, the depreciation allowance for such account for the taxable year will consist of an amount based on: the unadjusted basis of the account for the first half of the taxable year after adjustment for extraordinary retirements during the first half of the taxable year, plus the unadjusted basis of the account for the second half of the taxable year after adjustment for extraordinary retirements during the second half of the taxable year. This convention may also be applied by assuming, with respect to all vintage accounts of a taxable year, that all additions occur on the first day of the second quarter of the taxable year and that all extraordinary retirements occur on the first day of the second quarter of the taxable year.

§ 1.167 (a)-11 (c) (2) (ii)

(iii) Half-year convention. The depreciation allowance for a vintage account for which the taxpayer adopts the "half-year convention" shall be determined by treating all property in the account as placed in service on the first day of the second half of the taxable year and by treating all extraordinary retirements (as defined in paragraph (d) (3) (ii) of this section) from the account as occurring on the first day of the second half of the taxable year.

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(iv) Rules of application. The first-year convention adopted for a vintage account must be consistently applied to all additions to and all extraordinary retirements from such account. See paragraph (d) (3) (ii) and (iii) for definition and treatment of ordinary retirements. For purposes of this subparagraph, the second half of a taxable year shall be deemed to commence on the beginning of the first day of a calendar month which is the closest such first day to the middle of the taxable year. The first half of the taxable year shall be deemed to expire at the close of the last day of a calendar month which is the closest such last day to the middle of the taxable year. Rules consistent with the preceding two sentences shall apply for purposes of determining the commencement of the second quarter of the taxable year and the expiration of the first quarter of the taxable year. If a taxable year consists of a period which includes only one calendar month, the first half of the taxable year shall be deemed to expire on the first day which is nearest to the midpoint of the month, and the second half of the taxable year shall begin the day after the expiration of the first half of the month.

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(3) Taxable years beginning before and ending after December 31, 1970. In the case of a taxable year which begins before January 1, 1971, and ends after December 31, 1970, property first placed in service after December 31, 1970, but treated as first placed in service before January 1, 1971, by application of a convention described in subparagraph (2) of this paragraph shall be treated as provided in this subparagraph. The depreciation allowed (or allowable) for the taxable year shall consist of the depreciation allowed (or allowable) for the period before January 1, 1971, determined without regard to this section plus the amount allowable for the period after December 31, 1970, determined under this section. However, neither the modified half-year convention described in subparagraph 2 (ii) of this paragraph, nor the half-year convention described in subparagraph 2 (iii) of this paragraph may be applied with respect to property placed in service after December 31, 1970, to allow depreciation for any period prior to

January 1, 1971, unless such application is consistent with the convention applied by the taxpayer with respect to property placed in service in such taxable year prior to January 1, 1971.

(4) Examples. The principles of this paragraph may be illustrated by the following examples:

Example (1). Taxpayer A, a calendar year taxpayer, places new property in service in a trade or business as follows:

Asset	Placed in service	Unadjusted Basis
W	April 1, 1971	$ 5,000
X	June 30, 1971	8,000
Y	July 15, 1971	12,000
Z	December 20, 1971	60,000

(i) Taxpayer A adopts the modified half-year convention described in subparagraph (2) (ii) of this paragraph. Assets W, X, and Y are placed in a multiple asset account for which the asset depreciation range is 8 to 12 years. A selects 8 years, the minimum asset depreciation period with respect to such assets, and adopts the declining balance method of depreciation using a rate twice the straight line rate (computed without reduction for salvage). The annual rate under this method using

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a period of 8 years is 25 percent. The depreciation allowance for assets W and X for 1971 is $3,250, a full year's depreciation under the modified half-year convention (that is, basis of $13,000 (unreduced by salvage) multiplied by 25 percent). The depreciation allowance for asset Y is $1,500, a half year's depreciation under the modified half-year convention (that is, basis of $12,000 (unreduced by salvage) multiplied by 25 percent, then multiplied by 1/2, since the property is entitled to only a half year's depreciation).

(ii) The taxpayer places asset Z in an item account and adopts the sum of the years-digits method. The asset depreciation range for such asset is 4 to 6 years and the taxpayer selects an asset depreciation period of 5 years. The depreciation allowance for asset Z in 1971 is $10,000 (that is, basis of $60,000 (unreduced by salvage) multiplied by 5/15, the appropriate fraction using the sum of the years-digit method, then multiplied by 1/2, since only one half year's depreciation is allowable under the convention).

Example (2). The facts are the same as in example (1), except that the taxpayer adopts the half-year convention described in subparagraph (2)(iii) of this paragraph. The depreciation allowances in example (1) with respect to assets Y and Z are not affected. However, assets W and X are entitled to a depreciation allowance for only a half year. Thus, the depreciation allowance for assets W and X for 1971 is $1,625 (that is, 1/2 of the $3,250 allowance computed in example (1)).

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Example (3). The taxpayer during his taxable year which begins April 1, 1970, and ends March 31, 1971, places new property in service in a trade or business as follows:

Assets	Placed in Service
A	April 30, 1970
B	December 15, 1970
C	January 1, 1971

The taxpayer had used a convention with respect to assets placed in service in prior taxable years whereby assets placed in service during the first half of the year are treated as placed in service on the first day of such year and assets placed in service in the second half of the year are treated as placed in service on the first day of the following year. If the taxpayer selects the modified half-year convention, one year's depreciation is allowable on asset A determined without regard to this section. No depreciation is allowable for asset B. No depreciation is allowable for asset C for the period prior to January 1, 1971, but one-fourth year's depreciation is allowable on asset C determined under this section.

Example (4). Assume the same facts as in Example (3) except that the taxpayer had used a convention with respect to assets placed in service in prior taxable years whereby such assets are treated as placed in service at the mid-point of the year. If the taxpayer selects the modified half-year convention, one-half year's depreciation is allowable for asset A determined without regard to this section. One-half year's depreciation is allowable for asset B determined without regard to this section. One-fourth year's depreciation is allowable for asset C determined without regard to this section and one-fourth year's depreciation is allowable for asset C determined under this section.

Example (5). The taxpayer during his taxable year which begins August 1, 1970 and ends July 31, 1971, places new property in service in a trade or business as follows:

Asset	Placed in Service
A	August 1, 1970
B	January 15, 1971
C	June 30, 1971

The taxpayer had used a convention with respect to assets placed in service in prior taxable years whereby assets placed in service during the first half of the year are treated as placed in service on the first day of such year and assets placed in service in the second half of the year are treated as placed in service on the first day of the following year. If the taxpayer selects the modified half-year convention, one full year's depreciation is allowable for asset A determined without regard to this section. Five months depreciation is allowable for asset B determined without regard to this section and seven months depreciation is allowable for asset B determined under this section. One-half year's depreciation is allowable for asset C determined under this section. The taxpayer may not apply the modified half-year convention by assuming all additions occurring the first day of the second quarter of the taxable year since such application is not consistent with the convention applied with respect to assets placed in service in prior taxable years.

Example (6). Assume the same facts as in example (5) except that the taxpayer applies a convention with respect to assets placed in service prior to January 1, 1971, whereby such assets are treated as placed in service at the mid-point of the year. If the taxpayer selects the modified half-year convention and applies such convention by treating all additions as occurring on the first day of the second quarter of the taxable year, one-half year's depreciation is allowable for asset A determined without regard to this section, seven months depreciation is allowable for asset B determined under this section, and seven months depreciation is allowable for asset C determined under this section.

Example (7). (i) Taxpayer B reports income on the basis of a taxable year ending March 31. B adopts the declining balance method of depreciation using a rate twice the straight line rate (computed without reduction for salvage) with respect to new property, which is first placed in service by B in the taxable year ending March 31, 1971, as follows:

Asset	Placed in service	Unadjusted Basis
W	May 15, 1970	$ 8,000
X	November 1, 1970	3,000
Y	January 20, 1971	4,000
Z	March 10, 1971	16,000

(ii) B's depreciation deduction with respect to assets W and X for the taxable year ending March 31, 1971, will be determined without regard to this section, since assets W and X are not eligible property. Assume that B adopts for assets W and X a convention under § 1.167 (a)-10 which treats assets placed in service during the first half of the year as placed in service on the first day of such year, and which treats assets placed in service during the second half of the

year as placed in service on the first day of the following year. Using this convention, B computes a full year's depreciation for asset W and no depreciation for asset X. Assets W and X have a guideline life of 10 years and no salvage value. The depreciation allowance for asset W is $1,600 (that is, 20 percent multiplied by basis of $8,000). No depreciation is allowed for asset X in the taxable year ending March 31, 1971.

(iii) Assets Y and Z are eligible property and B makes an election under this section. B selects an asset depreciation period of 8 years from an asset depreciation range of 8 to 12 years. B adopts the modified half-year convention described in subparagraph (2) (ii) of this paragraph. Thus, assets Y and Z would be treated as placed in service on October 1 1970 (that is, the first day of the second half of the taxable year), but for the special limitation in subparagraph (3) of this paragraph. The selection of an 8-year asset depreciation period only applies for the portion of the taxable year after December 31, 1970. Further, no depreciation is allowable for assets Y and Z for the period prior to January 1, 1971, since B selected a convention for assets W and X which treats assets placed in service during the second half of the year as placed in service on the first day of the following year. The depreciation allowance for the period from January 1, 1971, through March 31, 1971, is computed using a rate based upon the asset depreciation period of 8 years selected by the taxpayer, and the depreciation allowance for assets Y and Z for such period is $1,250 (that is, basis of $20,000, multiplied by 25 percent then multiplied by 1/4, the portion of the taxable year to which the election under this section applies).

(d) Special rules for salvage, repairs, and retirements--(1) Salvage value--(i) In general. For purposes of this section the term "salvage value" means gross salvage value (that is, the amount expected to be realized, without reduction for the cost of removal, dismantling, demolition, or similar operations) less the amount, if any, by which the gross salvage value taken into account is reduced by application of section 167 (f). The gross salvage value of each vintage account of the taxable year of election shall be estimated by the taxpayer at the time the election is made, upon the basis of all the facts and circumstances existing at the close of the taxable year of election. The taxpayer shall specify the amount, if any, by which gross salvage value taken into account is reduced by application of section 167 (f). See paragraph (f) (2) of this section for requirement that the election specify the estimated salvage value for each vintage account of the taxable year of election. The salvage value estimated by the taxpayer will not be redetermined merely as a result of fluctuations in price levels.

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Salvage value for a vintage account need not be established or increased as a result of a property improvement as described in subparagraph (2) (v) of this paragraph. Generally, gross salvage value is the amount which is estimated will be realized upon a sale or other disposition of the property in the vintage account when it is no longer useful in the tax-payer's trade or business or in the production of his income and is to be retired from service. If a taxpayer customarily sells or otherwise disposes of property at a time when such property is still in good operating condition, the gross salvage value of such property is the amount expected to be realized upon such sale or disposition, and under certain circum-stances, as where such property is customarily sold at a time when it is still relatively new, the gross salvage value may constitute a relatively large pro-portion of the unadjusted basis of such property. In no case may a vintage account be depreciated below a reasonable salvage value after taking into

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account any reduction in salvage value permitted by section 167 (f). Generally, as provided in section 167 (f), a taxpayer may reduce the amount of gross salvage value of a vintage account by an amount which does not exceed 10 percent of the unadjusted basis of the personal property (as defined in section 167 (f) (2)) in the account. See paragraph (b) (3) (ii) of this section for requirement of separate vintage accounts for personal property described in section 167 (f) (2).

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(ii) Limitation on adjustment of salvage. The taxpayer's estimate of the salvage value for a vintage account will be deemed to be reasonable and will not be adjusted unless there is a final determination of an amount of salvage value for the account which exceeds the taxpayer's estimate of salvage value for the vintage account by an amount greater than 10 percent of the unadjusted basis of the account at the close of the taxable year in which the account is established. If there is a final determination of an amount of salvage value for a vintage account which does exceed the taxpayer's estimate of the salvage value for the account by more than 10 percent, or if the taxpayer follows the practice of understating his estimates of salvage value to take advantage of this subdivision, an adjustment will be made by increasing the taxpayer's estimated salvage value of the account by an amount equal to the difference between the salvage value as finally determined and the taxpayer's estimated salvage value. For purposes of this subdivision, the Commissioner's determination of the

reasonable salvage value of an account shall constitute the final determination unless there is a determination within the meaning of section 1313 (a) (1).

(iii) Examples. The principles of this subparagraph may be illustrated by the following examples in which it is assumed that the taxpayer has not followed a practice of understating his estimates of salvage value:

Example (1). Taxpayer B elects to apply this section to assets Y and Z, which are placed in a multiple asset vintage account for which the taxpayer selects an asset depreciation period of 8 years. The unadjusted basis of asset Y is $50,000 and the unadjusted basis of asset Z is $30,000. B estimates a gross salvage value of $55,000. The property qualifies under section 167 (f) (2) and B reduces the amount of gross salvage taken into account by $8,000 (that is, 10 percent of $80,000) under section 167 (f). Thus, B establishes a salvage value of $47,000 for the account. There is no basis for determining a gross salvage value for the account greater than $60,000 (which would result in a salvage value for the account of $52,000 after applying section 167 (f)). Since the difference between $52,000 and $47,000 does not exceed 10 percent of the unadjusted basis of the account ($8,000), no adjustment will be made in the salvage value for the account.

Example (2). The facts are the same as in Example (1) except that B estimates a gross salvage value of $50,000. The difference between the taxpayer's estimated salvage value of $42,000 (that is, estimated gross salvage value, $50,000, minus the $8,000 reduction under section 167 (f)), and the salvage value as finally determined, $52,000 (that is, gross salvage $60,000, minus the $8,000 reduction under section 167 (f)), is $10,000. This difference exceeds 10 percent of the unadjusted basis of the vintage account, $8,000. In this case, the salvage value will be redetermined to be $52,000 that is the gross salvage value, $60,000 minus the $8,000 reduction under section 167 (f).

(2) Treatment of repairs--(i) In general. Sections 162 and 263 provide general rules for the treatment of certain expenditures for the repair, maintenance, rehabilitation, and improvement of property. In general, under those sections, expenditures which appreciably prolong the life of an asset, or materially increase its value or adapt it to a different use are capital expenditures. If an expenditure is treated as a capital expenditure under section 162 or 263, it is subject to the allowance for depreciation. On the other hand, in general, expenditures which do not appreciably prolong the life of an asset or materially increase its value may be deducted as an expense in the taxable year in which paid or incurred. Such expenditures, or a series of such expenditures, may have characteristics both of deductible expenses and capital expenditures. This subparagraph provides a simplified procedure for determining whether such expenditures with respect to property in a vintage account are to be treated as deductible expenses or capital expenditures.

(ii) Repair allowance for vintage accounts. For purposes of this section, the term "repair allowance" for a vintage account means, for each taxable year, an amount determined by dividing the unadjusted basis (as of the beginning of the taxable year) of the vintage account (without reduction for salvage value) by the number of years in the asset depreciation period selected for the account.

(iii) Application of repair allowance. Except as otherwise provided in subdivision (vi) of this subparagraph, if the taxpayer pays or incurs any expenditures during a taxable year for the repair, maintenance, rehabilitation, or improvement of property in a vintage account (other than for an "excluded addition" as described in subdivision (iv) of this subparagraph), the taxpayer must either--

(a) Treat an amount of all such expenditures in such taxable year with respect to property in a vintage account which does not exceed in total the repair allowance for that account as deductible repairs, and treat the excess of such expenditures

in the manner described in subdivision (v) of this subparagraph, or

(b) Treat each of such expenditures in such taxable year as either a capital expenditure or as deductible repair in accordance with the principles of section 162 or 263, and treat the amount which would be required to be capitalized under section 162 or 263 in the manner described in subdivision (v) of this subparagraph.

The treatment of expenditures under this subparagraph for a taxable year for the accounts of all vintages shall be specified in the tax return filed for such taxable year. The treatment specified for a taxable year may not be changed after the time prescribed under paragraph (f) of this section for filing an election under this section for such taxable year. Except as otherwise provided in subdivision (vi) of this subparagraph, if the taxpayer treats any expenditures for repair, maintenance, rehabilitation, or improvement of property in a vintage account of a particular vintage under

subdivision (iii) (a) of this subparagraph, he must apply this treatment to all such expenditures with respect to all accounts of that vintage. However, the taxpayer may treat expenditures under subdivision (iii) (a) of this subparagraph with respect to accounts of one particular vintage and treat expenditures under subdivision (iii) (b) of this subparagraph with respect to accounts of some other vintage. In addition, the taxpayer may treat expenditures with respect to accounts of a particular vintage under subdivision (iii) (a) of this subparagraph in one taxable year, and treat expenditures with respect to accounts of that vintage under subdivision (iii) (b) of this subparagraph in another taxable year.

(iv) Definition of excluded addition. The term "excluded addition" generally means (a) an expenditure for an additional identifiable unit of property, (b) an expenditure which substantially increases the productivity or capacity of an existing identifiable unit of property over its productivity or capacity

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when first acquired by the taxpayer, or (c) an expenditure which modifies an existing identifiable unit of property for a substantially different use. Such an expenditure is distinguished from an expenditure for replacement of a part in an existing identifiable unit of property which does not substantially increase its productivity or capacity over its productivity or capacity when first acquired by the taxpayer or modify it for a substantially different use and which is paid or incurred in connection with the repair, maintenance, rehabilitation, or improvement of such property. For example,

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in the case of a vintage account of five automobiles, each automobile constitutes an identifiable unit of property. If the transmission of an automobile is replaced in order to repair, maintain, or rehabilitate the automobile, the new transmission is not an excluded addition. However, the addition of an air conditioner to the automobile is an excluded addition unless the air conditioner is a replacement of an existing air conditioner in the automobile. The replacement of one of the automobiles in the vintage account is an excluded addition. Further, for example, an expenditure for the replacement of a truck body with a substantially greater capacity than the body for which it was substituted on an existing truck chassis is also an excluded addition.

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(v) Treatment of property improvements. The term "property improvement" means the amount of any expenditure for the repair, maintenance, rehabilitation or improvement (other than for an excluded addition) of property in a vintage account which either: (a) exceeds the repair allowance (if the taxpayer treats such expenditures under subdivision (iii) (a) of this subparagraph); or (b) is treated as a capital expenditure under section 162 or 263 if the taxpayer treats such expenditures under subdivision (iii) (b) of this subparagraph. The amount of any property improvement paid or incurred during the taxable year with respect to the property in a vintage account shall be subtracted from the reserve for depreciation established for such vintage account, but the reserve for depreciation established for the vintage account shall not thereby be reduced below zero. The

amount of any property improvement which is not subtracted from the reserve for depreciation under the preceding sentence shall be capitalized and recovered through the allowance for depreciation. If the amount of any property improvement is not subtracted from the reserve for depreciation in a taxable year, such amount shall be capitalized in a vintage account of the taxable year in which paid or incurred if the taxpayer elects to apply this section for the taxable year.

(vi) Relationship to section 263 (e). Under section 263 (e), certain expenditures which would otherwise be chargeable to capital account are treated as deductible repairs. A taxpayer may, for any taxable year, treat expenditures under subdivision (iii) (a) of this subparagraph and exclude from such treatment expenditures with respect to property in vintage accounts to which section 263 (e) applies. See paragraph (b) (3) (ii) for

requirement of separate vintage accounts for property which qualifies for treatment under section 263 (e). If, however, the taxpayer for any taxable year treats any expenditures with respect to property in vintage accounts to which section 263 (e) would apply under subdivision (iii) (a) of this subparagraph, section 263 (e) shall not apply for such taxable year with respect to any such expenditures with respect to any such vintage accounts. If the taxpayer for any taxable year treats any expenditures with respect to property in vintage accounts to which section 263 (e) applies under subdivision (iii) (b) of this subparagraph, then the amount which is treated as a deductible repair under section 162 or 263 shall be determined without regard to this section and will include the amount deductible under section 263 (e). The term "property improvement" does not include any amount deducted under section 263 (e).

(vii) Records required. The taxpayer must maintain records of all expenditures in connection with the repair, maintenance, rehabilitation or improvement of property in each vintage account. No deduction will be allowed under the repair

allowance rule of subdivision (iii) (a) of this subparagraph unless the taxpayer maintains records containing the following information:

(a) The vintage of the account,

(b) The unadjusted basis of the account and each asset in such account,

(c) The depreciation reserve for the account,

(d) The asset depreciation period selected for the account,

(e) The estimated gross salvage value for the account, and if the estimated gross salvage has been reduced by application of section 167 (f), the amount of such reduction,

(f) An enumeration of the amount of all expenditures in connection with the vintage account either individually or by some reasonable groupings or classifications, a brief indication of the nature of such expenditures or groupings or classifications and some reasonable indication of the times at which such expenditures were paid or incurred.

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(viii) Examples. The provisions of this subparagraph may be illustrated by the following examples:

Example (1). Taxpayer A elects to apply this section to assets X and Y which are placed in a multiple asset vintage account for which A selects an asset depreciation period of 10 years. The unadjusted basis of asset X is $55,000 and the unadjusted basis of asset Y is $65,000. A adopts the straight line method of depreciation with respect to the account. A estimates a salvage value of zero and the salvage value as finally determined is zero. A elects to treat expenditures for the repair, maintenance, rehabilitation, and improvement of such assets under subdivision (iii) (a) of this subparagraph. The depreciation allowance for the first year is $12,000, that is, 1/10 of the unadjusted basis of $120,000. In year two, A incurs an expenditure of $20,000 for the rehabilitation of assets X and Y. An amount of $12,000 will be deductible in year two as a repair allowance and $8,000 will be subtracted from the depreciation reserve for the account as of the beginning of year two. Accordingly, the reserve as of the close of the second year is $16,000, that is, the $12,000 reserve at the beginning of year two, minus the $8,000 subtracted from the reserve as a property improvement, plus the $12,000 of depreciation allowed in year two. Assuming no further expenditures with respect to the account, and no retirements from the account, the taxpayer will be allowed $12,000 as a depreciation deduction in each of years three through ten. The balance of the reserve at the end of year ten will be $112,000, that is, $16,000 (the balance of the reserve at the end of year two) plus $96,000 ($12,000 per year for years three through ten). A depreciation deduction of $8,000 will be allowed in year eleven and in the absence of any other facts, no depreciation will be allowed after year eleven since the sum of the reserve ($120,000) and the salvage value (zero) at that time equals the unadjusted basis.

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Example (2). Assume the same facts as in Example (1) except that the expenditure in the second year of the asset depreciation period with respect to the rehabilitation of assets X and Y is $50,000. An amount of $12,000 of such expenditure is deductible in year two as a repair allowance. An amount of $38,000 of such expenditure is a property improvement. An amount of $12,000 of such property improvement is subtracted from the reserve for depreciation for the account as of the beginning of year two, reducing the reserve to zero, and an amount of $26,000 of such property improvement is required to be capitalized under subdivision (v) of this subparagraph. If A elects to apply this section for year two the property improvement will be capitalized in a vintage account of year two.

Example (3). Assume the same facts as in Example (1) except that no rehabilitation expenditure was incurred in year two and in the tenth year of the asset depreciation period, A incurs an expenditure of $50,000 with respect to the rehabilitation of assets X and Y. The depreciation allowance for each of the first nine years of the asset depreciation period is $12,000. Accordingly, the depreciation reserve as of the beginning of the tenth year is $108,000. In year ten, $12,000 of the $50,000 rehabilitation expense will be deductible as a repair allowance, the remaining $38,000 will be subtracted as of the beginning of year ten from the reserve as a property improvement, and $12,000 of depreciation will be allowed for the year. At the end of year ten, the reserve for depreciation will be $82,000, that is $108,000 plus $12,000 minus $38,000. In the absence of other facts, in each of years eleven through thirteen the depreciation allowance will be $12,000. In the fourteenth year $2,000 of depreciation will be allowed. No depreciation will be allowed in the fifteenth year since the sum of the depreciation reserve ($120,000) and the salvage value, zero, at that time equals the unadjusted basis of the account.

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(3) Treatment of retirements--(i) In general. The rules of this subparagraph specify the treatment of all retirements from vintage accounts. The rules of § 1.167 (a)-8 shall not apply to any retirement from a vintage account. An asset in a vintage account is retired when such asset is permanently withdrawn from use in a trade or business or in the production of income by the taxpayer. A retirement may occur as a result of a sale or exchange, by other act of the taxpayer amounting to a permanent disposition of an asset, by physical abandonment of an asset, or by transfer of an asset to supplies (for cannibalization) or scrap. A physical abandonment occurs only if it appears that the property will neither be restored to use in the taxpayer's trade or business or in the production of income, nor retrieved for sale, exchange, or other disposition.

(ii) <u>Definitions of ordinary and extraordinary retirements</u>. The term "ordinary retirement" means any retirement from a vintage account which is not treated as an "extraordinary retirement" under this subdivision. The retirement of an asset from a vintage account in a taxable year is an "extra-ordinary retirement" if the asset is not a property improvement as described in subparagraph (2) (v) of this paragraph and if--

(a) The asset is retired as the direct result of fire, storm, shipwreck, or other casualty; or

(b) (1) The asset is retired (other than by transfer to supplies or scrap) in a taxable year as the direct result of a cessation, termination, curtailment, or disposition of a business, manu-facturing, or other income producing process, operation, facility or unit, and (2) the un-adjusted basis of all the assets so retired (other than a property improvement) in such taxable year from such account as a direct result of the event described in (b) (1) of this subdivision exceeds 20 percent of the unadjusted basis of

such account immediately prior to such event. For this purpose, all accounts of the same vintage for which the same asset depreciation period has been selected, and from which a retirement as a direct result of such event occurs within the taxable year, shall be treated as a single vintage account.

(iii) Treatment of ordinary retirements. No loss shall be recognized upon an ordinary retirement. Gain shall be recognized only to the extent specified in this subparagraph. All proceeds from ordinary retirements shall be added to the depreciation reserve of the vintage account from which the retirement occurs. See subdivision (viii) of this subparagraph for recognition of gain when the depreciation reserve exceeds the unadjusted basis of the vintage account. The amount of salvage value for a vintage account shall be reduced (but not below zero) as of the beginning of the taxable year by the excess of

(a) the depreciation reserve for the account, after adjustment for depreciation allowable for such taxable year and all other adjustments prescribed by this section (other than the adjustment prescribed by subdivision (viii) of this subparagraph), over (b) the unadjusted basis of the account less the amount of salvage value for the account before such reduction. Thus, in the case of a vintage account with an unadjusted basis of $1,000 and a salvage value of $100, to the extent that proceeds from ordinary retirements increase the depreciation reserve above $900, the salvage value is reduced. If the proceeds increase the depreciation reserve for the account to $1,000, the salvage value is reduced to zero. The unadjusted basis of the asset retired in an ordinary retirement is not removed from the account and the depreciation reserve for the account is not reduced by the depreciation allowable for the retired asset. The previously unrecovered basis of the retired asset will be recovered through the allowance for depreciation with respect to the vintage account. See subdivision (v) of this subparagraph for treatment of ordinary retirements on which gain or loss is not recognized in whole or in part.

(iv) Treatment of extraordinary retirements. Unless the transaction is governed by a special non-recognition section of the Code such as 1031 or 337, gain or loss shall be recognized upon an extraordinary retirement in the taxable year in which such retirement occurs subject to section 1231 and all other applicable provisions of law such as section 1245. The unadjusted basis of the retired asset shall be removed from the unadjusted basis of the vintage account. The depreciation reserve established for the account shall be reduced by the depreciation allowable for the retired asset computed in the manner prescribed in paragraph (c) (1) (vi) (b) of this section for determination of the adjusted basis of the asset.

(v) Special rule for certain retirements. In the case of an ordinary retirement on which gain or loss is in whole or in part not recognized because of a special nonrecognition section of the Code, such as 1031 or 337, the unadjusted basis of the asset (other than a property improvement the cost of which was subtracted from the depreciation reserve) shall be removed from the unadjusted basis of the vintage

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account. The depreciation reserve for the vintage account shall be adjusted for property improvements the costs of which were subtracted from the depreciation reserve and which are the subject of such a retirement, as provided in subdivision (vi) of this subparagraph. The depreciation reserve established for the account shall be reduced by the depreciation allowable for the asset (including depreciation allowable for any property improvement the cost of which was subtracted from the depreciation reserve) computed in the manner prescribed in paragraph (c) (1) (vi) (b) of this section for determination of the adjusted basis of the asset (or property improvement).

(vi) Special adjustments to depreciation reserve for retirement of property improvements. If the cost of a property improvement is subtracted from the depreciation reserve established for a vintage account, and if the property improvement is thereafter removed from the vintage account in accordance with paragraph (b) (5) (iv) or (v) or paragraph (b) (6) (iii) of this section or is retired from the vintage account

in a retirement described in subdivision (v) of this subparagraph, such reserve shall be increased by the amount of the property improvement previously subtracted from the reserve.

(vii) Reduction in the salvage value of a vintage account. (a) A taxpayer may apply this section without reducing the salvage value for a vintage account in accordance with this subdivision. See subdivision (iii) of this subparagraph for reduction of salvage value in certain circumstances in the amount of proceeds from ordinary retirements. However, except in the case of a property improvement, the

taxpayer may in addition follow the consistent practice of reducing, as retirements occur, the salvage value for a vintage account by the amount of salvage value attributable to the retired asset, or the taxpayer may consistently follow the practice of so reducing the salvage value for a vintage account as extraordinary retirements occur while not reducing the salvage value for the account as ordinary retirements occur. If the taxpayer does not reduce the salvage value for a vintage account as retirements occur, the taxpayer may be entitled to a loss in the taxable year in which the last asset is retired from the account in accordance with subdivision (viii) (b) of this subparagraph.

(b) For purposes of this subdivision, the portion of the salvage value for a vintage account

attributable to a retired asset may be determined by multiplying the salvage value for the account by a fraction, the numerator of which is the unadjusted basis of the retired asset and the denominator of which is the unadjusted basis of the account, or by any other reasonable method which is consistently applied if such method is adequately identified in the taxpayer's books and records.

(c) If the taxpayer reduces the salvage value for a vintage account as ordinary retirements occur, in the case of an ordinary retirement the taxpayer may follow the consistent practice of reducing the salvage value for the account by the amount of salvage value attributable to the retired asset and considering the basis of the asset as zero. In the alternative, in the case of an ordinary retirement the taxpayer may follow the consistent practice of reducing the salvage value for the account by the amount of salvage value attributable to the retired asset and adding the same amount to

the depreciation reserve for the account (up to an amount which does not increase the depreciation reserve to an amount in excess of the unadjusted basis of the account) and considering the basis of the retired asset as the amount added to the depreciation reserve for the account. Thus, for example, in the case of an ordinary retirement by transfer of an asset to supplies or scrap, the basis of the asset in the supplies or scrap account would either be zero or the amount added to the depreciation reserve of the vintage account from which the retirement occurred. When the depreciation reserve for the account equals the unadjusted basis of the account no further adjustment to salvage value for the account will be made.

(d) In the event of a removal of property from a vintage account in accordance with paragraph (b) (5) (iv) or (v) or paragraph (b) (6) (iii) of this section, the salvage value for the account may be reduced by the amount of salvage value attributable

to the asset removed determined as provided in (b) of this subdivision.

(viii) Recognition of gain or loss in certain situations. (a) If at the end of any taxable year after adjustment for depreciation allowable for such taxable year and all other adjustments prescribed by this section, the depreciation reserve established for a vintage account exceeds the unadjusted basis of the account, the entire amount of such excess shall be recognized as gain in such taxable year. Such gain shall--

(1) Constitute gain to which section 1245 applies to the extent that it does not exceed the total amount of depreciation allowances in the depreciation reserve for all years at the end of such taxable year, reduced by gain recognized pursuant to this subdivision with respect to the account previously treated as gain to which section 1245 applies, and

(2) Constitute gain to which section 1231 applies to the extent that it exceeds such total amount as so reduced.

In such event, the depreciation reserve shall be reduced by the amount of gain recognized, so that

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after such reduction the amount of the depreciation reserve is equal to the unadjusted basis of the account. Thus, for example, in the case of a vintage account with an unadjusted basis of $1,000 and a depreciation reserve of $700 (of which $600 represents depreciation allowances), if $500 is realized during the taxable year from ordinary retirements of assets from the account, the reserve is increased to $1,200, gain is recognized to the extent of $200 (the amount by which the depreciation reserve before further adjustment exceeds $1,000) and the depreciation reserve is then decreased to $1,000. The $200 of gain constitutes gain to which section 1245 applies. If the amount realized from ordinary retirements during the year had been $1,100 instead of $500, the gain of $800 would have consisted of $600 of gain to which section 1245 applies and $200 of gain to which section 1231 applies.

§ 1.167 (a)-11 (d) (3) (viii) (a)

(b) If at the end of the taxable year during which the last asset in a particular vintage account is retired the unadjusted basis of the account exceeds the depreciation reserve for the account (after all adjustments prescribed by this section), the entire amount of such excess shall be recognized in such taxable year as a loss subject to section 1231.

(ix) Dismantling cost. The cost of dismantling, demolishing, or removing an asset in the process of a retirement from a vintage account shall be treated as an expense deductible in the year paid or incurred, and such cost shall not be subtracted from the depreciation reserve for the account.

(e) Accounting for eligible property--(1) Definition of first placed in service. Property is "first placed in service" when first placed in a condition or state of readiness and availability for a specifically assigned function, whether in the taxpayer's trade or business, in the production of income, in a tax-exempt activity, or in a personal activity. The provisions of paragraph (d) (1) (ii) and (d) (2) of § 1.46-3 shall apply for the purpose of determining the date on which property is first placed in service. A property improvement as described in paragraph (d) (2) (v) of this section is first placed in service when its cost is paid or incurred. For special rule for subtraction of the cost of a property improvement from the depreciation reserve as of the beginning of the taxable year in which paid or incurred, see paragraph (c) (1) (ii) of this section. The date on which depreciation begins under a

convention used by the taxpayer or under a particular method of depreciation, such as the unit of production method or the retirement method, shall not determine the date on which the property is first placed in service. See paragraph (c) (2) of this section for application of a first-year convention to determine the allowance for depreciation of property in a vintage account.

(2) Special rules for transferred property. If eligible property is first placed in service by the taxpayer during a taxable year of election, and the property is disposed of before the end of the taxable year, the election for such taxable year shall include such property unless such property is excluded in accordance with paragraph (b) (5) (iii) of this section.

(3) Special rules in the case of certain transfers--(i) Transaction to which section 381 (a) applies. If the distributor or transferor corporation (including any distributor or transferor corporation of any distributor or transferor corporation) has

made an election to apply this section to eligible property transferred in a transaction to which section 381 (a) applies, the acquiring corporation is treated as if it were the distributor or transferor corporation with respect to such property. The acquiring corporation must segregate such eligible property (to which the distributor or transferor corporation elected to apply this section) into vintage accounts as nearly coextensive as possible with the vintage accounts created by the distributor or transferor corporation identified by reference to the year the property was first placed in service by the distributor or transferor corporation. The asset depreciation period for each vintage account selected by the distributor or transferor corporation from the asset depreciation range must be used by the acquiring corporation. The method of depreciation adopted by the distributor or transferor corporation, shall be used by the acquiring corporation unless such corporation obtains the consent of the Commissioner to use another method of depreciation in accordance

with paragraph (e) of § 1.446-1, changes to the straight line method of depreciation under paragraph (b) of § 1.167 (e)-1 or changes to the straight line method under paragraph (c) (1) (iii) of this section. Thus, the acquiring corporation may apply this section to the property so acquired only if the distributor or transferor corporation elected to apply this section to such property.

(ii) Partnerships, trusts, estates, donees, and corporations. Except as provided in subdivision (i) of this subparagraph with respect to transactions to which section 381 (a) applies, if eligible property is placed in service by an individual, trust, estate, partnership or corporation, the election to apply this section shall be made by the individual, trust, estate, partnership, or corporation placing such property in service. For example, if a partnership places in service property contributed to the partnership by a partner, the partnership may elect to apply this section to such property. If the

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partnership does not make the election, this section will not apply to such property. See paragraph (b) (7) of this section for special rule for certain property where there is a mere change in the form of conducting a trade or business.

(iii) Leased property. The asset depreciation range and the asset depreciation period for eligible property subject to a lease shall be determined without regard to the period for which such property is leased, including any extensions or renewals of such period. See paragraph (b) (5) (iv) of this section for exclusion of property amortized under paragraph (b) of § 1.162-11 from an election to apply this section.

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(f) Election with respect to eligible property--(1) Time and manner of election. An election to apply this section to eligible property shall be with the income tax return filed for the taxable year in which the property is first placed in service (see paragraph (e) (1) of this section) by the taxpayer. An election to compute the allowance for depreciation under this section is a method of accounting but the consent of the Commissioner will be deemed granted to make an annual election.

§ 1.167 (a)-11 (f) (1)

For election by a partnership see section 703 (b) and paragraph (e) (3)(ii) of this section. If the taxpayer does not file a timely return (taking into account extensions of the time for filing) for the taxable year in which the property is first placed in service, the election shall be filed at the time the taxpayer files his first return for that year. The election may be made with an amended return only if such amended return is filed no later than the time prescribed by law (including extensions thereof) for filing the return for the taxable year of election. If an election is not made within the time and in the manner prescribed in this paragraph, no election may be made (by the filing of an amended return or in any other manner) with respect to any eligible property placed in service in the taxable year.

(2) Information required. The election under this section must specify:

(i) That the taxpayer makes such election and consents to, and agrees to apply, all the provisions of this section;

(ii) The asset depreciation range for the property and the date the property was first placed in service by the taxpayer;

(iii) The asset depreciation period selected by the taxpayer for each vintage account;

(iv) The first-year convention adopted by the taxpayer for the taxable year of election;

(v) The basis and estimated gross salvage value for each vintage account, and if such salvage value has been determined by application of section 167 (f), the amount by which gross salvage value was decreased under section 167 (f);

(vi) Whether the special 10 percent used property rule described in paragraph (b) (5) (iii) of this section has been applied to exclude used property from the election and the separate depreciable basis of the new and used property first placed in service during the taxable year;

(vii) The amount of any property improvements (as defined in paragraph (d) (2) (v) of this section) and the date the costs of such property improvements were paid or incurred;

(viii) A reasonable description of any eligible property for which the taxpayer was not required or permitted to make an election because of the special rules of paragraph (b) (5) or (6) or paragraph (e) (3) (i) of this section; and

(ix) Such other information as may be required.

Forms will be provided for submission of the information required and an election to apply the section will not be rendered invalid under this subparagraph so long as there is substantial compliance with the requirements of this subparagraph.

(3) Irrevocable election. An election to apply this section to eligible property for any taxable year may not be revoked or changed after the time for filing the election prescribed under subparagraph (1) of this paragraph has expired.

(g) Relationship to other provisions--

(1) Useful life. An election to apply this section to eligible property constitutes an agreement under section 167 (d) and this section to treat the period selected by the taxpayer for each vintage account as the useful life of the property in such account for all purposes of the Code, including sections 46, 47, 48, 57, 163 (d), 167 (c), 167 (f), 179, 312 (m), 514 (a), and 4940 (c). For example, since section 167 (c) requires a useful life of at least 3 years and the asset depreciation period selected is treated as the useful life for purposes of section 167 (c), the taxpayer may adopt a method of depreciation described in section 167 (b) (2) or (3) for an account only if the asset depreciation period selected for the account is at least 3 years.

(2) <u>Section 167 (d) agreements</u>. If the taxpayer has, prior to January 1, 1971, entered into a section 167 (d) agreement which applies to any eligible property, the taxpayer will be permitted to withdraw the eligible property from the agreement provided that an election is made to apply this section to such property. The statement of intent to withdraw eligible property from such an agreement must be made in an election filed for the taxable year in which the property is first placed in service. The withdrawal, in accordance with this subparagraph, of any eligible property from a section 167 (d) agreement shall not affect any other property covered by such an agreement.

(3) <u>Relationship to the straight line method</u>--(i) <u>In general</u>. For purposes of determining the amount of depreciation which would be allowable under the straight line method of depreciation, such amount shall be computed with respect to any property in a vintage account using the straight line method in the manner described in paragraph (c)(1)(i) of this section and a rate based upon the period for the vintage account selected from the asset

depreciation range. Thus, for example, section 57 (a) (3) requires a taxpayer to compute an amount using the straight line method of depreciation if the taxpayer uses an accelerated method of depreciation. For purposes of section 57 (a) (3), the amount for property in a vintage account shall be computed using the period for the vintage account selected from the asset depreciation range. In the case of property to which the taxpayer does not elect to apply this section, such amount computed by using the straight line method shall be determined under § 1.167 (b)-1 without regard to this section.

(ii) Examples. The principles of this subparagraph may be illustrated by the following examples:

Example (1). (a) Corporation X places a new asset in service to which it elects to apply this section. The cost of the asset is $200,000 and the estimated salvage value is zero. The taxpayer selects 9 years from the applicable asset depreciation range of 8 to 12 years. Corporation X adopts the double declining balance method of

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depreciation and thus the rate of depreciation is 22.2 percent (twice the applicable straight line rate). The depreciation allowance in the first year would be $44,400, that is, 22.2 percent of $200,000.

(b) Assume that the provisions of section 57 (a) (3) apply to the property. The amount of the tax preference would be $22,200, that is, the excess of the depreciation allowed under this section ($44,400) over the depreciation which would have been allowable if the taxpayer had used the period selected from the asset depreciation range and the straight line rate ($22,200).

Example (2). (a) The facts are the same as in example (1) except that corporation X does not elect to apply this section. The depreciation allowance is based on a guideline life of 10 years and thus the rate under the double declining balance method is 20 percent. The depreciation allowance is $40,000, that is, $200,000 multiplied by 20 percent.

(b) Assume that the provisions of section 57 (a) (3) apply to the property. The amount of the tax preference under that section would be $20,000, that is, the excess of the amount allowed under the double declining balance method, as determined in (a) of this example, $40,000, over the amount which would have been allowable if the taxpayer had used the straight line method, $20,000.

Par. 2. The following new section is added immediately after § 1.167 (l)-4, to read as follows:

§ 1.167 (a)-11 (g) (5) (ii)

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§ 1.167 (ℓ)-5 Public utility property; election to use asset depreciation range system.

(a) Application of section 167 (ℓ) to certain property subject to asset depreciation range system. If the taxpayer elects to compute depreciation under the asset depreciation range system described in § 1.167 (a)-11 with respect to certain public utility property placed in service after December 31, 1970, see § 1.167 (a)-11 (b) (6).

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epartment of the TREASURY NEWS

TON, D.C. 20220 TELEPHONE WO4-2041

)R IMMEDIATE RELEASE March 15, 1971

ROBERT T. COLE APPOINTED TO NEW POST
OF INTERNATIONAL TAX COUNSEL

Secretary of the Treasury John B. Connally today announced ıe appointment of Robert T. Cole to the newly created position : International Tax Counsel.

Mr. Cole previously was Special Assistant for International ıx Affairs in the office of Assistant Secretary for Tax Policy lwin S. Cohen. He had served in that post, and also had been ›puty Tax Legislative Counsel (International), since ›ptember 1969.

Mr. Cole's office has now been designated the Office of ıternational Tax Counsel in recognition of its major role in ıe development of policy regarding the taxation of foreign ›urce income of U.S. taxpayers, the taxation of foreigners ›ceiving income from U.S. sources, the interest equalization ıx, the prevention of international tax evasion, and other ıternational tax matters. The office has been assigned ıcreasingly important responsibilities for the legislative ıd regulatory development of these policies, and also plays leading part in negotiating and implementing United States ıx treaties with other nations.

Mr. Cole, 38, was born in New York City. He received a S. degree in economics from the Wharton School of Finance and ımmerce, University of Pennsylvania, in 1953, and an LL.B. om Harvard Law School in 1956. He also received an Academic st Graduate Diploma in Law from the London School of Economics 1959.

Prior to joining Treasury in April 1967 as Deputy Special sistant for International Tax Affairs, Mr. Cole was with e New York law firm of Mudge Rose Guthrie & Alexander. From 57 to 1959 he was in the Judge Advocate General's Department the Air Force. A former editor of the Harvard Law Review, Cole was United States Rapporteur, Congress of the ternational Fiscal Association, held in Paris in 1963.

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Mr. Cole is married to Dr. Margaret Hall, an Assistant rofessor of Sociology at Georgetown University. They ave three daughters, Elizabeth, 8, Tanya, 5, and ıdith, 3.

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D.C 20220 TELEPHONE W04-2041

TION: FINANCIAL EDITOR

RELEASE 6:30 P.M.,

ay, March 15, 1971.

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced that the tenders for two series of Treasury , one series to be an additional issue of the bills dated December 17, 1970 , and ther series to be dated March 18, 1971 , which were offered on March 9, 1971 opened at the Federal Reserve Banks today. Tenders were invited for $1,900,000,000, ereabouts, 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 TITIVE BIDS:	91-day Treasury bills maturing June 17, 1971		182-day Treasury bills maturing September 16, 1971	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv. Annual Rate
High	99.183	3.232%	98.295 a/	3.373%
Low	99.153	3.351%	98.258	3.446%
Average	99.164	3.307% 1/	98.273	3.416% 1/

a/ Excepting 2 tenders totaling $1,070,000

88% of the amount of 91-day bills bid for at the low price was accepted

3% of the amount of 182-day bills bid for at the low price was accepted

TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

trict	Applied For	Accepted	Applied For	Accepted
ton	$ 28,505,000	$ 18,505,000	$ 11,600,000	$ 1,600,000
York	2,144,890,000	1,336,690,000	2,035,960,000	1,095,560,000
ladelphia	34,520,000	19,520,000	4,120,000	4,120,000
veland	38,975,000	38,975,000	24,260,000	19,260,000
mond	10,320,000	10,285,000	12,900,000	3,930,000
anta	47,645,000	41,585,000	24,705,000	10,905,000
cago	198,935,000	175,935,000	200,290,000	176,290,000
Louis	48,235,000	44,935,000	19,205,000	12,165,000
neapolis	37,205,000	37,205,000	33,140,000	28,140,000
sas City	34,990,000	34,990,000	21,135,000	15,625,000
las	32,720,000	22,720,000	32,050,000	14,110,000
Francisco	156,470,000	118,750,000	108,070,000	18,370,000
TOTALS	$2,813,410,000	$1,900,095,000 b/	$2,527,435,000	$1,400,075,000 c/

ludes $256,375,000 noncompetitive tenders accepted at the average price of 99.164
ludes $ 86,390,000 noncompetitive tenders accepted at the average price of 98.273
se rates are on a bank discount basis. The equivalent coupon issue yields are
% for the 91-day bills, and 3.53% for the 182-day bills.

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

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 THE EXTENSION OF THE INTEREST EQUALIZATION TAX
ON MONDAY, MARCH 15, 1971, AT 10:00 AM

Mr. Chairman, Members of the Committee:

Under present legislation, the Interest Equalization Tax expires on March 31 of this year. This tax, effective since July, 1963, has been adopted and maintained as a means of reducing the outflow of portfolio capital from the United States to developed countries. It has been extended on three occasions, with small modifications. I urge you to provide for the extension of this tax for another two years by adopting H.R. 5432.

The effect of the tax is to raise the cost to foreigners in developed countries of borrowing or raising equity funds in the United States. The tax rate may be varied by the President between the equivalent of an effective annual rate of zero and 1-1/2 percent per annum. At present, it is 3/4 percent.

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The tax provides important protection for our balance of payments position, particularly during a period when interest rates are relatively low in the United States as compared to most other advanced countries. That is the case at present.

The tax directly discourages foreign borrowing in our market. It also complements and supports the Commerce Department program designed to limit the balance of payments cost of direct investment abroad and the Federal Reserve program designed to limit outflows of funds from banks and other financial institutions. The three programs are mutually reinforcing in holding in check the volume of dollars that move into foreign hands through outflows of U. S. capital. Without the Interest Equalization Tax, the remaining programs -- particularly the Commerce program that encourages U. S. firms to finance a portion of their overseas expansion in foreign markets -- would be substantially weakened.

The President has stated his intention to relax these programs as soon as the balance of payments situation permits

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I wish I could report to you today that the need for these restraints was no longer necessary. However, after full review within the Administration, the conclusion was reached that these programs must be maintained for a further period with little change.

Although no single measure can reflect all aspects of the situation, our balance of payments position continues to be plainly unsatisfactory.

On the official settlements basis, our deficit reached almost $10 billion in 1970, even after allowing for our allocation of Special Drawing Rights. That result was heavily influenced by the sharp easing of American money markets at a time when rates are still high in many foreign countries. We benefited from large inflows of interest-sensitive short-term capital in 1968 and 1969, when our domestic markets were extremely tight. Now those flows have sharply reversed.

These flows of short-term capital, disturbing as they are, do not reflect our underlying position. Indeed, our total current account position improved last year. However, this improvement, while welcome, must also be discounted to some extent. Cyclical conditions, here and abroad, were

exceptionally favorable for our exports. Even so, as Table I shows, our current account surplus was well below the levels recorded earlier in the 1960's. It failed to cover exports of long-term capital and aid flows by a large margin. As a consequence, our so-called "basic balance" on trade, other current items, and long-term capital remained in sizeable deficit.

Partial data for January and February show the situation is not improving. We continue to face a major challenge in bringing our position into a sustainable equilibrium. Neglect of this problem would simply be inconsistent with maintaining a framework of international monetary stability so important in facilitating flows of trade and investment.

Dealing with that challenge in a responsible way demands that we not prematurely remove the limitations imposed on capital outflows, including the Interest Equalization Tax. Action has been taken from time to time to ease the administration of these programs and the difficulties of businesses in complying. But we do not believe, in the light of present balance of payments circumstances, that further relaxation can be justified at this time.

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The Interest Equalization Tax has been effective in substantially reducing the volume of securities offered in the United States by countries subject to the tax. Since 1963, annual offerings of developed countries -- apart from Canada, for which there is a special exemption -- have generally been very small, as may be seen in Table II. Similarly, there is evidence to indicate that the tax has substantially inhibited U. S. purchases of outstanding foreign securities (see Table III). As a result, more of the burden of foreign financing has properly shifted to other countries in a stronger balance of payments position.

While we have found it necessary to maintain special measures of restraint such as the Interest Equalization Tax, the basic approach toward strengthening our international financial position must be along different lines. Most fundamentally, we must restore a healthy economic climate at home. Orderly growth, increasing productivity, and price stability must be sought hand in hand. In this respect, our balance of payments and domestic aims broadly coincide.

I would emphasize that, even if it were acceptable on domestic grounds, there is no salvation for our balance of payments in a sluggish domestic economy. As we can see now, such an economy is prone to export capital abroad, and it does not encourage long-term capital inflows. Temptations to embark on self-defeating protectionist measures would be stronger and growth in the world economy would be retarded.

What is essential is that, as economic growth resumes with more vigor, we continue and build upon the progress already made against inflation. The stability of the dollar at home is fundamental to its stability internationally and to the stability of the world monetary system. Only with the achievement of relative price stability can we hope to restore our trade and current account position to the point where it can fully support our policies of aid, defense, and unrestricted flows of private investment.

There are more specific measures that we can and must take as well.

We must also keep our export credit facilities in line with those of other countries and ensure that our tax system

does not discriminate against exports as compared with direct investment abroad. In that connection, I hope this Committee will, upon further review, support the proposal for a Domestic International Sales Corporation.

There is no quick or easy answer to our balance of payments problem. Domestic inflation and overheating in the late 1960's set back our efforts, and we are still struggling with the distortions and imbalances that developed as a consequence of that period. It is essential to demonstrate that we are coping with these problems and are willing to maintain the special measures required to protect our balance of payments position -- including continuation of the Interest Equalization Tax.

The Treasury has no problems with the modifications to the present legislation which are contained in the House bill. To provide consistent treatment, we would also be glad to see a further provision to assure that certain domestic mutual funds treated as foreign for the purposes of the Interest Equalization Tax not be permitted such treatment on new issues. More importantly, we urge that you extend this legislation for another two years.

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	1961-65 Average	1966	1967	1968	1969	1970 (3 qtrs., s.a. annual rate)	1970 (Actual)
Merchandise trade balance	5.4	3.9	3.9	0.6	0.6	2.7	(2.2)
Exports	23.0	29.4	30.7	33.6	36.5	42.1	(42.0)
Imports	-17.6	-25.5	-26.8	-33.0	-35.8	-39.4	(-39.9)
Investment income balance	3.5	4.1	4.5	4.8	4.4	4.3	
Receipts from U.S. investments abroad	4.9	6.3	6.9	7.7	8.8	9.6	
Payments on foreign investments in U.S.	-1.3	-2.1	-2.4	-2.9	-4.5	-5.3	
Balance on other services	-2.5	-2.7	-3.2	-2.9	-3.1	-3.1	
BALANCE ON GOODS & SERVICES	6.5	5.3	5.2	2.5	1.9	3.9	
Unilateral transfers, excluding gov't. grants	-0.8	-0.9	-1.2	-1.1	-1.2	-1.3	
BALANCE ON CURRENT ACCOUNT, excluding gov't. grants	5.7	4.4	4.0	1.4	0.8	2.6	
U.S. Gov't. economic grants and credits a/	-3.7	-3.9	-4.2	-4.2	-3.7	-3.4	
Balance on private direct investment	-2.2	-3.6	-2.9	-2.9	-2.2	-3.8	
Balance on securities transactions	-0.8	0.4	-0.3	3.1	1.6	1.0	(1.3)
Balance on various other long-term capital transactions b/	-0.5	0.6	0.2	0.9	0.7	0.3	
BALANCE ON CURRENT AND LONG-TERM CAPITAL ACCOUNTS c/	-1.4	-2.0	-3.1	-1.7	-2.8	-3.3	
Balance on various other capital transactions: Short-term, other than liquid liabilities; long-term bank liabilities to foreign official agencies; non-marketable U.S. Gov't. liabilities; unscheduled debt payments on U.S. Gov't. credits; and Gov't. sales of foreign obligations to foreigners.	---	1.2	0.6	2.3	-1.3	0.1	
Errors and omissions	-0.9	-0.5	-1.1	-0.5	-2.8	-2.0	
Allocation of Special Drawing Rights	---	---	---	---	---	0.9	(0.9)
BALANCE ON LIQUIDITY BASIS	-2.3	-1.4	-3.5	0.2	-7.0	-4.4	(-3.9)
less Certain non-liquid liabilities to foreign official agencies	0.1	0.8	1.3	2.3	-1.0	-0.2	(-0.3)
plus Liquid liabilities to private foreigners and international organizations	0.7	2.4	1.5	3.8	8.7	-4.5	(-6.2)
BALANCE ON OFFICIAL SETTLEMENTS BASIS	-1.8	0.3	-3.4	1.6	2.7	-8.7	(-9.8)

a/ Net of scheduled repayments.

b/ Excluding changes in long-term bank liabilities to foreign official agencies and in non-marketable U.S. Gov't. liabilities.

c/ One version of the so-called "basic balance".

NOTE: Details will not necessarily add to totals due to rounding.

New Issues of Foreign Securities Purchased by U.S. Residents, by Area, 1962-1970
(Balance of payments basis, $ millions)

	1962	1963* First Half	1963* Second Half	1964	1965	1966	1967	1968	1969	1970p
All Areas	1,076	1,000	250	1,063	1,206	1,210	1,619	1,703	1,667	1,457
IET Countries, Total	356	343	110	35	147	19	14	45	23	130
West. Europe incl. U.K.	195	219	53	35	95	15	---	42	14	130
Japan	101	107	57	---	52	4	14	3	9	---
Other 1/	60	17	---	---	---	---	---	---	---	---
Of which:										
exempt from IET 2/			110 3/	20	52	10	14	3	9	130
subject to IET			---	15	95	9	---	42	14	---
Other Countries, Total	722	656	141	1,027	1,058	1,191	1,605	1,659	1,645	1,327
Canada	458	608	85	700	709	922	1,007	949	1,270	776
Latin America 4/	119	13	23	208	36	68	140	144	32	120
Other Countries	61	35	33	115	134	121	212	176	179	190
International Institutions	84	---	---	4	179	80	246	390	164	241

* Not seasonally adjusted.
1/ Australia, New Zealand, South Africa.
2/ Related to the export, the direct investment, and the Japanese exemptions.
3/ Represents commitments made prior to 7/18/63, the date of inception of the IET.
4/ Includes Inter-American Development Bank issues.

Source: Department of Commerce, Office of Business Economics.

U.S. Department of Treasury
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NET TRANSACTIONS IN OUTSTANDING FOREIGN SECURITIES
BY U.S. RESIDENTS, BY AREA, 1962-1970
(Balance of Payments basis, $ million, Net U.S. Purchases (-))

	1962	1963 First Half*	1963 Second Half*	1964	1965	1966	1967	1968	1969	1970
All Areas	-96	-151	102	194	225	300	-135	-61	-305	186
IET Countries, Total	15	- 85	85	181	234	222	-111	- 3	-285	n.a.
U.K.	31	17	23	49	9	- 7	- 71	-54	-173	n.a.
West Europe	-47	- 69	31	103	110	156	- 25	21	263	n.a.
Japan	-23	- 25	- 4	---	6	10	- 5	6	-294	n.a.
Canada 3/	79	7	30	17	147	68	- 8	33	- 82	n.a.
Other 1/	-25	- 15	5	12	-38	- 5	- 2	- 9	1	n.a.
Other Countries, Total	-13	- 6	10	2	- 8	26	- 36	-75	- 51	n.a.
Latin America 2/	-25	- 3	1	-13	-13	2	- 13	-73	- 65	n.a.
Other Countries	12	- 3	9	15	5	24	- 23	- 2	14	n.a.
International Institution	-98	- 60	6	11	- 3	51	13	15	31	n.a.

* Not seasonally adjusted.
1/ Australia, New Zealand, South Africa.
2/ Includes Latin American Development Bank issue of $145 million in 1964.
3/ Excludes Canadian repurchases, undertaken in '66, '67 and '68 for reserve management purposes.
NOTE: These data reflect residence of seller rather than the original country of issue of the security - the basis on which the IET applies. Also, the above data show net purchases (or sales) whereas the IET applies to gross purchases.

SOURCE: Department of Commerce, Office of Business Economics.

U.S. Department of Treasury
February 16, 1971

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Department of the TREASURY

N, D.C. 20220 TELEPHONE W04-2041

NEWS

FOR IMMEDIATE RELEASE March 16, 1971

TREASURY SAYS PIG IRON FROM CANADA, FINLAND, AND WEST GERMANY IS BEING SOLD AT LESS THAN FAIR VALUE

Assistant Secretary of the Treasury Eugene T. Rossides announced today that pig iron from Canada, Finland, and West Germany is being, and is likely to be, sold at less than fair value within the meaning of the Antidumping Act, 1921, as amended.

Notices of these determinations will be published in the Federal Register of Wednesday, March 17, 1971. The cases are now being referred to the Tariff Commission for a determination as to whether injury exists.

In the case of Canada, the Treasury Department issued a withholding of appraisement notice on December 17, 1970. Withholding of appraisement notices with respect to Finnish and West German pig iron are being issued simultaneously with the less than fair value determinations.

In 1970, 222,400 long tons of pig iron valued at $13.7 million were imported from Canada. In 1970 there were no pig iron imports from Finland. During 1969, pig iron imports from Finland totalled 62,000 long tons valued at $2.4 million. Imports of pig iron from West Germany during 1970 totalled only 100 long tons valued at $8,500. In 1969 pig iron imports from West Germany totalled 32,500 long tons valued at $1.5 million.

The less than fair value determination with respect to West Germany follows a tentative determination of no sales at less than fair value, which was published in the Federal Register of May 6, 1970.

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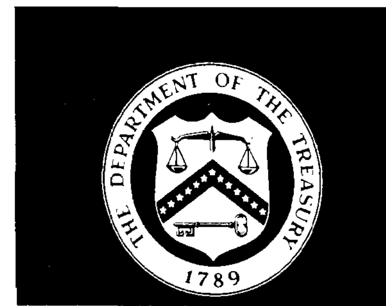

FOR IMMEDIATE RELEASE

March 16, 1971

TREASURY ANNOUNCES NEAR-TERM FINANCING PLANS

The Treasury announced today plans to raise $5.0 billion of cash in the bill market prior to the period of heavy corporate tax payments in the second half of April. This financing will take the form of $200 million increases in the regular six-month bill issues for a period of four weeks, an additional $2.0 billion of April tax anticipation bills, and a "strip" of bills totalling $2.2 billion. This "strip" will consist of additions of $200 million each to eleven outstanding series of weekly Treasury bills.

The increase in the six-month bills will start with the auction of March 22 and will end with the auction of April 12.

The additional amount of April tax anticipation bills will be auctioned on Wednesday, March 24, for payment on Tuesday, March 30. These bills are in addition to the $2.3 billion of April tax bills already outstanding. The bills mature on April 22 but may be used at face value in payment of Federal income taxes due on April 15.

The "strip" offering will be auctioned on Wednesday, March 31, with payment on April 6. Subscribers must submit tenders for equal amounts of each of the eleven bills being reopened. The reopened bills are those which mature July 8 through September 16, 1971, inclusive.

None of the bills may be paid for by credit to Treasury tax and loan accounts.

The Treasury noted that this financing has been made possible by passage of the debt ceiling legislation by the Congress today.

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NEWS

Washington

OR IMMEDIATE RELEASE March 16, 1971

TREASURY OFFERS ADDITIONAL $2 BILLION IN APRIL TAX BILLS

The Treasury Department, by this public notice, invites tenders for $2,000,000,000, or thereabouts, of 23-day Treasury bills (to maturity date), o be issued on March 30, 1971, on a discount basis under competitive and oncompetitive bidding as hereinafter provided. These bills will represent n additional amount of bills dated July 23, 1970, to mature April 22, 1971, riginally issued in the amount of $2,261,190,000. The additional and original ills will be freely interchangeable. They will be accepted at face alue in payment of income taxes due on April 15, 1971, and to the extent hey are not presented for this purpose the face amount of these bills will e payable without interest at maturity. Taxpayers desiring to apply these ills in payment of April 15, 1971, income taxes may submit the bills to a ederal Reserve Bank or Branch or to the Office of the Treasurer of the United tates, Washington, not more than fifteen days before that date. In the case f bills submitted in payment of income taxes of a corporation they shall be ccompanied by a duly completed Form 503 and the office receiving these items ill effect the deposit on April 15, 1971. In the case of bills ubmitted in payment of income taxes of all other taxpayers, the office eceiving the bills will issue receipts therefor, the original of which the axpayer shall submit on or before April 15, 1971, to the District irector of Internal Revenue for the District in which such taxes are payable. he bills 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).

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Tenders will be received at Federal Reserve Banks and Branches up to
e closing hour, one-thirty p.m., Eastern Standard time, Wednesday, March 24, 1971.
nders will not be received at the Treasury Department, Washington. Each
nder must be for a minimum of $10,000. Tenders over $10,000 must be in
ltiples of $5,000. In the case of competitive tenders the price offered
st be expressed on the basis of 100, with not more than three decimals,
g., 99.925. Fractions may not be used. It is urged that tenders be made
the printed forms and forwarded in the special envelopes which will be
pplied by Federal Reserve Banks or Branches on application therefor.

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

All bidders are required to agree not to purchase or to sell, or to make
agreements with respect to the purchase or sale or other disposition of
bills of this issue at a specific rate or price, until after one-thirty p.m.,
tern Standard time, Wednesday, March 24, 1971.

Immediately after the closing hour, tenders will be opened at the
ederal Reserve Banks and Branches, following which public announcement will
e made by the Treasury Department of the amount and price range of accepted
ids. Only those submitting competitive tenders will be advised of the
cceptance or rejection thereof. The Secretary of the Treasury expressly
eserves the right to accept or reject any or all tenders, in whole or in
art, and his action in any such respect shall be final. Subject to these
eservations, noncompetitive tenders for $ 300,000 or less without stated
rice from any one bidder will be accepted in full at the average price (in
hree decimals) of accepted competitive bids. Settlement for accepted tenders in
ccordance with the bids must be made or completed at the Federal Reserve Bank
 cash or other immediately available funds on March 30, 1971.

Under Sections 454 (b) and 1221 (5) of the Internal Revenue Code of 1954
e amount of discount at which bills issued hereunder are sold is considered
 accrue when the bills are sold, redeemed or otherwise disposed of, and the
lls are excluded from consideration as capital assets. Accordingly, the
ner of Treasury bills (other than life insurance companies) issued hereunder
st include in his income tax return, as ordinary gain or loss, the difference
tween the price paid for the bills, whether on original issue or on subsequent
rchase, and the amount actually received either upon sale or redemption at
turity during the taxable year for which the return is made.

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

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NEWS

OR IMMEDIATE RELEASE March 16, 1971

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 $3,500,000,000 or thereabouts, for cash and in exchange for Treasury bills maturing March 25, 1971, in the amount of $3,304,795,000, as follows:

91-day bills (to maturity date) to be issued March 25, 1971, in the amount of $1,900,000,000, or thereabouts, representing an additional amount of bills dated December 24, 1970, and to mature June 24, 1971 (CUSIP No. 912793 KPO) originally issued in the amount of $1,403,800,000 (an additional $200,74 ,000 was issued February 26, 1971), the additional and original bills to be freely interchangeable.

182 - day bills, for $ 1,600,000,000, or thereabouts, to be dated March 25, 1971, and to mature September 23, 1971 (CUSIP No. 912793 LKO).

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, Monday, March 22, 1971. 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

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mit tenders except for their own account. Tenders will be received hout deposit from incorporated banks and trust companies and from ponsible and recognized dealers in investment securities. Tenders m others must be accompanied by payment of 2 percent of the face unt of Treasury bills applied for, unless the tenders are accompanied an express guaranty of payment by an incorporated bank or trust pany.

Immediately after the closing hour, tenders will be opened at the eral Reserve Banks and Branches, following which public announcement l be made by the Treasury Department of the amount and price range accepted bids. Only those submitting competitive tenders will be ised of the acceptance or rejection thereof. The Secretary of the asury expressly reserves the right to accept or reject any or all ders, in whole or in part, and his action in any such respect shall final. Subject to these reservations, noncompetitive tenders for issue for $200,000 or less without stated price from any one der will be accepted in full at the average price (in three decimals) accepted competitive bids for the respective issues. Settlement for epted tenders in accordance with the bids must be made or completed the Federal Reserve Bank on March 25, 1971, cash or other immediately available funds or in a like face amount of sury bills maturing March 25, 1971. Cash and exchange tenders receive equal treatment. Cash adjustments will be made for ferences between the par value of maturing bills accepted in ange and the issue price of the new bills.

Under Sections 454 (b) and 1221 (5) of the Internal Revenue Code 954 the amount of discount at which bills issued hereunder are sold onsidered to accrue when the bills are sold, redeemed or otherwise osed of, and the bills are excluded from consideration as capital ts. Accordingly, the owner of Treasury bills (other than life rance companies) issued hereunder must include in his income tax rn, as ordinary gain or loss, the difference between the price paid the bills, whether on original issue or on subsequent purchase, and amount actually received either upon sale or redemption at maturity ng the taxable year for which the return is made.

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

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Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE W04-2041

FOR RELEASE UPON DELIVERY

STATEMENT BY THE HONORABLE JOHN B. CONNALLY
SECRETARY OF THE TREASURY
BEFORE
THE SUBCOMMITTEE ON TREASURY, POST OFFICE AND
GENERAL GOVERNMENT
COMMITTEE ON APPROPRIATIONS, HOUSE OF REPRESENTATIVES
WEDNESDAY, MARCH 17, 1971, AT 10:00 A. M.

Mr. Chairman and gentlemen of the Subcommittee, I am pleased to participate with you in the review of the appropriation requests of the Department of the Treasury for fiscal year 1972 following my appearance before the full committee on the overall government budget. Although my acquaintance with the Department's operations is still limited, I have now been briefed on a great many of its activities, problems, and opportunities. I have found the staff dedicated and informed and I can appreciate the Department's reputation for being an effective, cost-conscious performer.

1972 Budget Increases

It is my understanding that you have been examining programs with several of the heads of bureaus in careful detail and that the examination will continue following this review with me. If I may, then, I would like to just highlight the activities of the Department which give rise to the budget increase we are requesting for the new year. Treasury requests for appropriations for fiscal year 1972 departmental operations total $1,502,764,000. This is an increase of approximately $194 million over the proposed authorized level for 1971 as reflected in the President's budget for 1972.

Operations increases proposed to meet new workload and responsibilities total $80 million; equipment and capital improvement increases total $75 million; the cost of maintaining in 1972 the levels of employment and operations attained in 1971 is $57 million. The increases are offset in part by $18 million of costs of 1971 which will not recur in 1972 and by management improvements savings. Capital and equipment items are unusually large this year and I will speak of these in a moment. Maintenance of current employment levels is also larger than usual reflecting the continuation on a full-year basis in 1972 of our regular programs, plus such recent additions as explosives control, increased supervision of tax-exempt organizations, and acceleration of antidumping and countervailing duty investigations.

1971 Authorized Level

The 1971 authorized level with which we are comparing the 1972 requests is the 1971 appropriation increased by proposed supplemental appropriations for pay and program requirements of 1971. You will recall similar comparisons made in previous years. I have for the record a table (Table 1 attached) showing the derivation of the proposed authorized level for 1971. Also may I offer for the record at this point a table (Table 2 attached) which compares the 1972 request for each appropriation with the 1971 authorized level, and a third table (Table 3 attached) which shows manpower requirements.

Since the estimates before you were prepared prior to the employee pay increases granted January 1971 under the authority of P.L. 91-656, neither the 1971 estimates nor the 1972 estimates include costs of that action. While there are supplemental requirements reflected in these estimates, generally they reflect the pay raise granted in July, 1970 and do not include the most recent pay raise effective in January 1971. It is my understanding that an additional supplemental appropriation request will be forthcoming to you in the near future which will include the half-year cost in fiscal year 1971. A budget amendment for fiscal year 1972 will be prepared by the Office of Management and Budget to include the full-year costs in fiscal year 1972.

Major Budget Considerations

As you know from experience, current events and population and economic growth inevitably add to Treasury workloads and responsibilities. This brings increasing requirements for funds for employment and capital improvements which we do our best to offset by greater efficiency. In the 1972 budget we have tried to react appropriately,but conservatively:

-- to the President's emphasis on effective law enforcement;

-- to Congressional insistence on quick, thorough investigation of tax-exempt organizations, and antidumping and countervailing duty cases;

-- to the urgent need to secure tax revenues and to protect the tax administration by adequate levels of audit and enforcement of the revenue and customs laws;

-- to the demands of the nation for more products: coins, currency, stamps, checks and securities, and more services: relief on lost checks and bonds, assistance on tax rulings and tax preparation, and expeditious cargo and passenger inspection.

Special Operational Emphasis

The increases requested over the 1971 level of operations strongly reflect Treasury's major role in law enforcement and the reduction of crime. In 1972 the Bureau of Customs will continue to emphasize the interdiction of drugs and contraband. Internal Revenue, Customs, and the Secret Service are leading participants in the broadening drive against Organzied Crime and the Department contributes about 50 percent of the strength of strike forces. Stronger enforcement action will be taken in the control of explosives, firearms and munitions as we gain experience in these areas.

Secret Service responsibilities in fiscal 1972 will includ the protection of foreign dignitaries, although no new funding is requested for this purpose. Before making any request for funds we need to gain experience in this area. For protection of presidential and vice presidential candidates and nominees for the 1972 campaign, the third and final increment of Secret Service staff is requested. The added staff will also combat increases in counterfeiting and forgery crimes.

In other operational areas: Customs, in addition to accelerating investigations of antidumping and countervailing duty cases, will seek to reduce frauds on customs revenues. The application of additional funds for Internal Revenue Service audit and collections will obtain substantial direct revenues while encouraging voluntary compliance. The Mint's coinage program will include the new cupro-nickel dollar.

A Capital-Intensive Budget

$75 million of the appropriation increases represent investment in plant and equipment to process efficiently the workloads of the Department.

Capital acquisition planned in 1972 includes $19 million for data processing equipment and furnishing three new Service Centers for the Internal Revenue Service. It also includes $8 million for special projects, such as automated systems for processing merchandise import entries, the Customs intelligence network, the Office of the Treasurer's check claims procedures and provision for equipment acquisition in the Bureau of Engraving and Printing.

We consider consolidation of Customs New York City activities in the new World Trade Center to be a plant improvement, as will be the consolidation of Chicago Public Debt activities with those of Parkersburg in Parkersburg, West Virginia. And vitally important for the near future, is the acquisition of a suitable plant site for a modern replacement mint in Denver.

The largest capital item, $37 million for construction of the Federal Law Enforcement Training Center, relates directly to the President's concern that crime be abated. This subcommittee knows, of course, that although the costs of construction and operation of this center are included as Treasury appropriations, the eventual use will be for virtually all of Government.

On-Going Activities

I am providing, as an addendum to my statement, comments on each bureau's request. The bureau witnesses will want to discuss with you the latest information and plans for their essential on-going activities. There are many activities of our bureaus with which you are familiar that I have only mentioned here.

The largest collections of revenue and customs receipts in the world seem almost automatic because vast and intricate tax-gathering systems are administered so competently by Internal Revenue Service and Bureau of Customs employees. Public debt administration, government-wide disbursing, check payment and central accounting go on apace. Large demands for coins, currency and stamps must be met from year to year. I understand that this committee has had much to do with the automation, organization and improved processes that make possible these accomplishments.

Improving Managment

Fiscal 1970 marked another successful year of the Treasury cost reduction program with $95 million of benefits in the forms of increased revenues, saved interest costs and improved work methods. Fiscal 1971 can be expected to show similar fine results from the Department's thorough program to search for a better way.

Secretary Kennedy mentioned to you last year several major reviews of procedures and organizations that were underway in a search for better ways to fulfill our missions. Initial studies of the organizational structures of Internal Revenue Service and the Bureau of Customs have been completed for top management review. A management review of the Bureau of the Mint is reaching the report stage. Substantial additional effort is being made in the project to speed up the Customs entry process through automated procedures. In-house planning and criteria development is continuing on requirements for the replacement mint in Denver.

It is my intention to be closely concerned with Treasury operations and to insist on active pursuit of every possibility for economy and efficiency. Treasury's conservative approach has always compelled the exercise of tight management. I assure you that tight management will continue.

Committee Support

I have been told of the fine relationship the Treasury has enjoyed with this Committee. We appreciate your initiatives, your understanding and your timely action on the matters that come before you. We look forward to continuing the fullest cooperation.

Thank you, gentlemen. This concludes my prepared remarks. If you have any questions, I shall be glad to answer them.

Attachments

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Table 1

DEPARTMENT OF THE TREASURY
Derivation of "Proposed Authorized Level for 1971"

1971 Appropriations (PL-422)		$1,239,858,000
Supplemental Appropriations enacted by Congress		
Bureau of Customs (PL 91-665)	$500,000	
Internal Revenue Service (PL 91-665):		
Revenue Accounting and Processing	118,000	
Compliance	5,026,000	5,644,000
Total Appropriations enacted by Congress		1,245,502,000
roposed 1971 Supplemental Appropriations:		
Increased Classified Pay Costs	$59,629,000	
Wage Board Pay Costs	301,000	
Program Increase:		
Bureau of the Public Debt	3,000,000	62,930,000
roposed Authorized Level for 1971		$1,308,432,000

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Table 2

DEPARTMENT OF THE TREASURY
Annual Appropriations for Treasury Department for 1971
and Estimated Requirements for 1972
(in Millions of Dollars)

	1971 Proposed Authorized Level 1/	1972 Budget Estimates	Increase or Decrease (-)
ılar Operating Appropriations:			
ffice of the Secretary ----------------------	$10.2	$11.2	$1.0
ederal Law Enforcement Training Center:			
Salaries and Expenses ----------------------	1.1	1.5	.4
Construction ------------------------------	5.0	36.5	31.5
ıreau of Accounts:			
Salaries and Expenses ----------------------	47.7	49.9	2.2
Government Losses in Shipment -------------	.4	.7	.3
ıreau of Engraving and Printing ------------	---	3.0	3.0
ıreau of Customs ---------------------------	144.5	166.3	21.8
ıreau of the Mint:			
Salaries and Expenses ----------------------	20.2	25.8	5.6
Construction of Mint Facilities -----------	---	1.5	1.5
ıreau of the Public Debt -------------------	71.0	77.9	6.8
ıternal Revenue Service:			
Salaries and Expenses ----------------------	27.4	30.5	3.1
Revenue Accounting and Processing ----------	232.3	270.6	38.4
Compliance --------------------------------	694.6	761.8	67.2
Total, Internal Revenue Service ----------	954.3	1,062.9	108.6
fice of the Treasurer, U. S.:			
Salaries and Expenses ----------------------	8.6	9.3	.7
S. Secret Service:			
Salaries and Expenses ----------------------	45.4	56.3	10.9
tal, Regular Operating Appropriations ------	$1,308.4	$1,502.8	$194.3

: Amounts are rounded and do not add to total.
ncludes $59.9 million for proposed supplemental for civilian and wage board
ncreases and $3 million for workload increases.

ıary 20, 1971
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DEPARTMENT OF THE TREASURY
Comparative Statement of Average Positions
Fiscal Years 1971 and 1972
(Direct Appropriations Only)

	1971 Appropri- ations	1972 Estimate	Increase or Decrease (-) Over 1971
Regular Annual Operating Appropriations:			
Office of the Secretary -	564	599	35
Federal Law Enforcement Training Center -------	44	58	14
Bureau of Accounts ------	1,454	1,451	-3
Bureau of Customs -------	9,972	10,846	874
Bureau of the Mint ------	1,757	2,012	255
Bureau of the Public Debt	2,453	2,459	6
Internal Revenue Service:			
Salaries and Expenses -	1,560	1,645	85
Revenue Accounting and Processing ----------	23,110	23,819	709
Compliance ------------	45,281	48,385	3,104
Total, Internal Revenue Service	69,951	73,849	3,898
Office of the Treasurer -	820	861	41
U. S. Secret Service ----	2,384	2,767	383
TOTAL, Regular Annual Operating Appropriations	89,399	94,902	5,503

January 20, 1971
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ADDENDUM

BUREAU STATEMENTS

OFFICE OF THE SECRETARY

The estimate for the Office of the Secretary is $11,171,000, a net increase of $1,011,000 from the proposed authorized level for 1971.

Program increases are being requested for additional employment and for travel funds. A total of 36 new positions (33 man-years) are proposed to provide professional and clerical assistance in several staff offices -- the largest requirement being 21 new positions in the Office of Equal Employment Opportunity. Treasury is responsible under Executive Order 11246 for making compliance reviews of the equal opportunity employment programs of various banks, savings banks and savings and loan associations throughout the country and gives assistance to those institutions which seek to comply. The 15 positions remaining are for the Director of Law Enforcement, staff assistants in the Office of Enforcement and Operations, an attorney in the Office of the General Counsel, an accountant in the Fiscal Division, auditors in Management and Organization and for secretarial help. The 36 new positions will cost $647,000. Adequate, competent staff support is needed for the vast amount of policy study and formulation and the control of operations by this office.

To provide for the travel for the compliance reviews described above and to more adequately fund the travel of the Secretary, the Under Secretaries and Assistant Secretaries in 1972, $112,000 is requested. Travel costs in F.Y. 1971 have exceeded budget estimates and have been met only by curtailing needed support in staff areas. A more realistic travel budget is required for F.Y. 1972.

Other increases totalling $317,000 are necessary to maintain in 1972 the current levels of employment and operations. Offsetting reductions for non-recurring equipment purchases and for management savings amount to $55,000.

When the training center becomes fully operational, a core staff will conduct the common training for the agencies, carry out research in law enforcement training methods and curriculum content, operate and maintain the physical plant, and provide necessary support services, under the administrative supervision of the Secretary of the Treasury.

Advanced training unique to a particular group of agents will be conducted by the individual agency, using the central facilities, but with the direct expenses met by the individual agency. Training policy will be formulated by the Center Board of Directors made up of representatives of the participating Federal agencies.

It is estimated the entire facility will be ready for use at the end of calendar year 1974. The facility will be capable of training 8,725 students in a year (750 federal law enforcement officers at a given time).

BUREAU OF ACCOUNTS

Salaries and Expenses Appropriation

The 1972 estimate for the Bureau of Accounts is $49,899,000 -- a net increase of $2,249,000 above the proposed authorized level for 1971. This net amount, virtually all of which is to keep pace with uncontrollable rises in workload, includes: (1) $1,090,000 for the fixed cost of postage, (2) $420,000 for raw materials, (3) $196,000 for equipment purchases, (4) $327,000 for equipment rental, (5) $148,000 necessary to maintain existing staff levels, and (6) $68,000 for all other expenses.

The central disbursing job financed by this appropriation will produce 488 million payment items in 1972 -- 17 million units (3½%) above 1971. At current productivity levels, this increased workload would require an additional 41 average positions and $279,000. However, this increase has been completely offset by projecting an increase in productivity, thus requiring no increase in manpower for disbursing activities for 1972.

The increased funding requirements for the other four activities in the Bureau of Accounts is only $44,000 -- virtually the same in 1972 as in 1971. Offsetting this increase (which is primarily to maintain existing staff levels) is a reduction of $18,000 (3 man-years) anticipated from a lower level of activity in the liquidation of the Postal Savings System.

For the second successive year the Bureau of Accounts is estimating a reduction of manpower requirements below the current year despite ever-increasing work volume.

Government Losses in Shipment

Rising losses in shipment of Government property, such as coins, currency and securities, certain losses of the Postal Service and losses connected with redemption of savings bonds, make a $700,000 appropriation necessary for 1972.

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BUREAU OF CUSTOMS

The request for the Bureau of Customs is for $166,328,000 -- a net increase of $21,778,000 over the proposed authorized level for 1971. Of the increase, $5,419,000 is to handle increasing workloads, $2,630,000 is for new and expanded activities, particularly in the enforcement area, $8,684,000 is to fund new and continuing special projects, and $5,045,000 is needed to maintain current levels of employment.

A majority of this request is largely outside administrative control -- $5 million needed to maintain current levels of operations; $2.8 million to cover our move of New York offices to the New York World Trade Center; $924 thousand for mail handling equipment for new Post Office installations at Secaucus, New Jersey and Boston, Massachusetts; and $700 thousand for consolidation of Customs headquarters office operations, which are now carried on in four separate buildings.

We are asking for an additional $5.4 million to cover all types of Customs work -- for processing of cargo and persons, for law enforcement, and for the headquarters office. This workload is generated outside the Department and continues its increasing trend. Formal merchandise entries filed, the single most significant indicator of cargo processing workload, increased by 9 percent in 1970, on top of years of similar rises. Air passenger arrivals increased by a striking 17 percent, and total Customs collections reached a new peak of $3.3 billion.

On the enforcement side, increased results, reflecting the personnel increases from last year's supplemental and improved methods of investigation, have been dramatic. During the first six months of the fiscal year 1971, there were 4,580 arrests, compared with 7,340 during all of fiscal year 1970. Seizures of 340 pounds of heroin and 290 pounds of cocaine during the first six months of this fiscal year greatly exceeded the total seizures made last year, while there were 75,000 pounds of marihuana seized during this period as compared with 103,000 pounds during all of last year. Current results are good, but additional manpower is needed to cope with this continuing threat.

As a part of our expanded enforcement effort, we included $1.9 million for intensified antifraud activities. Customs has been unable to make adequate examination of commercial shipments to determine that they are properly classified and valued for tariff purposes, and has been unable to investigate many apparently fraudulent entries. Such fraudulent practices hurt the honest importer and deprive the Government of much needed revenue. It is expected that additional revenue to be derived from these increased antifraud activities will run many times the costs of the additional

personnel requested. Customs also proposes to use $600 thousand to strengthen its internal security and audit operations, and expand its technical training programs.

Customs Automated Merchandise Processing System holds promise of meeting future workloads more effectively and at less cost than would otherwise be required. Last year, $800 thousand was provided for a start on this long-term project. Further development in fiscal year 1972 calls for $2.7 million. This is a most important multi-year project from which results initially will be slow, but, in the long run, extremely worthwhile.

Customs enforcement work is steadily being enhanced by the expanded coverage of its automated intelligence network. This computer-based network will cover the entire Mexican border and a number of other key offices by the end of the current fiscal year. For fiscal year 1972, $1.6 million is requested to extend coverage to major airports and key crossings on the Canadian border.

Customs is also providing manpower for, and, with the Department of Transportation, is administering the Air Security or Sky Marshal Program. Funds for this program are being provided by the Department of Transportation, but a tremendous amount of Customs effort has been expended to make the program effective.

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BUREAU OF ENGRAVING AND PRINTING

The production operations of this Bureau are conducted on a completely reimbursable basis, financed by means of a revolving fund authorized by the Congress. An appropriation of $3 million is being requested for fiscal year 1972 to increase the working capital of the Bureau. In the light of current prices and advanced technology the working capital available to the Bureau has been found to be insufficient for the purchase of equipment to accelerate its modernization program. The specific equipment to be funded by the requested increase in 1972 is two modern printing presses for the production of postage stamps.

The Bureau's technological improvement program is the key to the remarkable productivity records achieved by this organization. Currently, two additional high-speed presses are being installed for the production of currency. In addition to increasing the Bureau's productive capability to meet continuing increases in the requirements for new currency, the installation of this equipment, coupled with "in-house" advancements being made in additional sophistication of processing operations, will result in further reducing manufacturing costs. Current projections indicate that the unit cost rate for manufacturing currency in the current fiscal year will be less than the $7.73 per thousand notes projected in the budget document. The budget rate had, in itself, established a new low in the cost of producing currency.

Early installation is anticipated also of a prototype overprinting and processing machine to mechanize some of the costly finishing operations associated with the production of currency. Complete conversion to such automation through the acquisition of four production models of these machines has the potential of substantially reducing the manufacturing cost of currency. Also, the Bureau recently acquired a seven-unit rotogravure printing press to obtain more flexibility in meeting emerging requirements of the U. S. Postal Service.

These are but a few examples of the progressive planning by management for continued improvement in the Bureau's operation. Much remains to be done, however, to provide for the acquisition of plant machinery and equipment necessary to accomplish present and imminent product requirements. A major portion of the Bureau's printing press equipment utilized in the production of its major products -- currency, food coupons and postage stamps -- still is obsolete in terms of productivity capabilities and should be replaced with more modern equipment. With the continuing significant increases that are occurring and are projected in the requirements for Bureau products, management conducted an in-depth analysis of equipment needs required to maintain Bureau effectiveness in meeting production and cost objectives. This review culminated in the initiation of a broad program covering fiscal years 1972

to 1974, inclusive, for the accelerated acquisition of additional modern printing presses and other specialized equipment identified to mechanize some of the more costly manual processing operations. It is anticipated that the greater productivity potentials from planned equipment acquisitions and improvements in the process operations will effect further economies to customer agencies served and to the Government as a whole.

Significant necessary improvements are being made also in other major program areas, particularly with respect to security and research projects.

BUREAU OF THE MINT

The Appropriation for Salaries and Expenses

The request of the Bureau of the Mint for fiscal year 1972 is for $25,833,000, a net increase of $5,627,000 over the proposed authorized level for 1971. Of this amount $16,697,000 is for the production of 9,200,000,000 coins -- 500,000,000 more than produced in 1971.

Coinage: The coinage program includes the new cupro-nickel clad half dollars and dollar coins authorized by the Coinage Act of 1970 (Public Law 91-607) of December 31, 1970: 300 million half dollar and 200 million dollar coins. This is in addition to our normal production of coins of the other denominations for which demand continues high.

Sales of coin silver: The sorting and melting of subsidiary silver coins withdrawn from circulation and the sale of the resulting silver bars have been completed during fiscal year 1971.

In-house production of clad strip: Plans for fiscal year 1972 are that the cladding line in Philadelphia will produce the strip for 10¢ and 25¢ coins produced in Philadelphia. Strip for Denver production of these two denominations will continue to be purchased from outside contractors. Strip for 50¢ and $1 pieces will also be purchased.

The Appropriation for Construction of Mint Facilities

The new Philadelphia Mint is now operational. The cladding line which has been installed is being de-bugged. When this de-bugging is successful, the Philadelphia Mint will have the capability of being self-sufficient from the purchase of raw material through the production of finished coins with the capability of producing four billion pieces, on a two-shift basis, per year.

To meet future coinage demands as indicated in the Treasury study entitled "Coin Requirements and Capacity in the Seventies," Treasury officials considered that additional Mint facilities would be required before the end of this decade. In June 1966 the Parsons-Jurden Corporation conducted a preliminary engineering study for expanding the Denver Mint. Later considerations altered the expansion plans at Denver and decisions were made to obtain a new facility at a new location in Denver. With the concurrence of the Office of Management and Budget, we are asking for $1,500,000 to be appropriated for advance planning and site acquisition for a new Denver Mint in fiscal year 1972. Several excellent sites are presently available which may not be available later; therefore, we feel that it is imperative that these construction funds be made available during fiscal year 1972.

Experience in the building, equipping and operation of the new Philadelphia Mint has afforded us excellent background for efficient handling of these phases of the new Mint in Denver.

Joint Commission on the Coinage

One meeting of this Commission was held during fiscal year 1970; however, no additional funds are requested for fiscal year 1972. There is a small balance of $4,000 in this account available for the printing of reports, etc.

BUREAU OF THE PUBLIC DEBT AND U. S. SAVINGS BONDS DIVISION

The request for the appropriation "Administering the Public Debt" for fiscal year 1972 is $77,853,000, an increase of $6,807,000 over the proposed authorized level for fiscal year 1971. The 1971 proposed authorized level reflects a supplemental of $4,254,000 of which $1,254,000 is for the P.L. 91-231 pay act increase and $3,000,000 is for increased costs of reimbursing the Federal Reserve Banks for their services as fiscal agents of the Bureau.

The Bureau of the Public Debt

The workload of the Bureau has grown steadily with the increase in the size of the public debt, and the greater number and complexity of transactions in Treasury securities. More than 545 million individual securities were outstanding as of September 30, 1970, to represent the gross debt of $378 billion. In fiscal year 1972 it is estimated 142.7 million securities will be issued and 150.5 million securities will be retired. This is an increase of 5.3 million pieces above the anticipated 1971 volume.

The Bureau will undergo two major moves in fiscal 1972. A study has indicated that the consolidation of the Chicago field office and the Parkersburg Office in Parkersburg will result in substantial improvements in service to bond holders and produce ultimate savings that would more than offset the initial cost. It is estimated that this move will cost $3.25 million. The other move involves the staff of the Washington Office now located in the Bureau of Engraving and Printing Annex. The Bureau of Engraving and Printing must expand its production facilities, and to permit this, the staff of the Bureau of the Public Debt will have to be moved to another building at an estimated additional cost of $651 thousand.

Operations of the Bureau of the Public Debt will show a net decrease of 4 average positions of employment although an addition of 13 average positions ($139 thousand) will be needed in certain areas to process the increased workload, particularly in the handling of inquiries and claims; to study and plan for the development of long-range improvements in automating the Bureau's activities; and to staff the Federal Reserve Bank visitation and review program.

The anticipated rise in the volume of securities to be issued, serviced and retired necessitates increases in fees paid to paying agents and reimbursements to Federal Reserve Banks of $2.5 million.

U. S. Savings Bonds Division

A one-half percent bonus for Savings Bonds in mid-1970 -- bringing the effective rate to 5½% -- triggered a significant

turn-about in Savings Bond sales and redemptions. Sales for the calendar year increased 6%; redemptions declined 6%, and the total amount of Savings Bonds outstanding reached a record high of $52.524 billion at year end.

The Savings Bonds Division operates with a paid staff of less than 500, depending upon a great volunteer organization of several hundred thousand to carry out its mission. The annual value of the contributed advertising alone is eight times the appropriated funds.

Savings Bonds account for 22% of the privately held portion of the public debt and provide a noninflationary form of financing for the Department of the Treasury.

Payroll Savings continue to be the dominant sales activity, accounting for 70% of total sales. More than 2.2 million new and increased savers were enrolled in 1970, oversubscribing the National Industrial Payroll Savings Committee's goal and resulting in the greatest E Bond sales in three years.

The present campaign slogan "Take Stock in America" appeals to both the Patriotism and self-interest of all Americans.

INTERNAL REVENUE SERVICE

The 1972 estimates for the Internal Revenue Service total $1,062,918,000, including $30,507,000 for Salaries and Expenses, $270,616,000 for Revenue Accounting and Processing, and $761,795,000 for Compliance. The amounts represent an increase of $108,620,000 and 3,898 average positions of employment over the authorized level for 1971. Program increases for expanded supervision of exempt organizations, to meet the growth of the population and the economy, for data processing and other equipment amount to $71,781,000. The net increase necessary to maintain 1971 staff levels would be $36,839,000.

The Compliance Appropriation

We are asking for an increase of $67.2 million and 3,104 average positions in compliance principally for expanded supervision of exempt organizations and to meet workload growth.

A number of developments have converged in recent years to create the tremendous problems now facing the Service. We are all aware of the substantial growth in the number of tax returns filed, but the effective growth in workload had been much greater because of the much more rapid increase in the number of complex income, estate and gift tax returns. These complex returns comprise the core of the audit program and provide a major vehicle for IRS efforts to foster taxpayer compliance. The growth in these mainstream responsibilities has in itself been enough to overburden the technical manpower IRS has had to devote to them.

But in addition, new legislation and initiatives by the Executive Branch have brought sizeable new responsibilities to IRS in recent years. These include special programs for the enhanced supervision of exempt organizations, the Organized Crime Drive, strike forces, expanded responsibilities in the firearms area, and, most recently, responsibility for enforcing the new explosives control laws. These programs have largely been carried on with resources originally provided for revenue producing activities.

This growth in workload both in mainstream programs and in special programs has combined with budgetary and hiring restrictions to create the acute shortage of technical manpower that exists today. There are fewer employees in the Service today available for examining tax returns than there were in 1968, and audit coverage has declined to low levels. The cost in revenue is substantial; since F.Y. 1969 successive budgetary restrictions and hiring freezes have cost an estimated $1.5 billion in direct revenue. An increased number of audits will help to maintain compliance levels and to guarantee equitable treatment under the tax laws that is the basis for voluntary compliance. These audits will more than pay for themselves.

The revenue estimates included in the President's Budget assume full funding of the program proposed for IRS. If funds for these purposes are reduced, Federal revenues must be reduced by an amount several times larger than the expenditures avoided.

The increase we are requesting for F.Y. 1972 will by no means remedy the problem, but it is an essential step toward improving a capability in tax administration. It represents only what can realistically be achieved in one year toward restoring the compliance operations of IRS and contains additional manpower that is well within the ability of IRS to hire, train and use productively.

Revenue Accounting and Processing Appropriation

The fiscal year 1972 program for Revenue Accounting and Processing will require 23,819 average positions and $270,616,000. These activities include the receipt and processing of tax returns; accounting for tax revenues; and preparation of statistical information on income and other features of the tax system.

To accomplish this objective, funds are needed to cover the increased workload resulting from growth in the population and economy and the increased complexity of the returns being filed. Included in our request are funds for additional equipment to cope with increased workloads. All ADP equipment on lease in F.Y. 1971 will be continued on a lease basis except for those items on which lease credits would cease to accrue in F.Y. 1972.

The principal increase is for data processing operations that require an increase of 794 average positions and $38,936,000 over the level authorized for fiscal year 1971. Capital improvements, such as acquisition of automatic data processing equipment and furnishing and equipping three new service centers, accounts for $18,820,000 of the total increase.

Salaries and Expenses Appropriation

For overall planning and direction of the Service and for internal controls and security, we are requesting an increase of $3,089,000 and 85 additional average positions.

For planning and direction, the request includes only 3 average positions over the 1971 authorized level. The Service's plan for internal controls and security in this budget provides for the completion of 13,550 Inspection Reports and will require 928 average positions at a cost of $18,152,000. This includes a program increase of 82 average positions required to accomplish workload which, even now, is being generated in the Service, particularly in the Data Processing and Compliance activities.

OFFICE OF THE TREASURER, U. S.

The estimate for the Office of the Treasurer of the United States for fiscal year 1972 is $9,336,000, an increase of $736,000 over the proposed authorized level for 1971. The largest part of the activities of this Office are concerned with paying Government checks, reconciling such payments to reports of issues submitted by disbursing officers, and processing claims of loss, theft, and forgery of Government checks.

Disbursing agencies have furnished estimates that check issues will increase from 606 million in 1971 to 622 million in 1972. Only three additional positions are being requested to process the 16 million additional checks.

The increasing number of claims of loss, theft, and forgery of Government checks is a major problem for this bureau. These claims are expected to increase from 615 thousand in 1971 to 679 thousand in 1972. Based on actual 1970 productivity and after making allowances for expected improvements, the analysis, documentation, and adjudication of these additional claims will require a net increase of 30 more average positions in 1972. Without these the settlement of claims will have to be delayed and experience has proven that if claims are not processed promptly, the payees suffer and their complaints multiply. This in turn results in a heavy increase in mail which must be handled and consumes time that should be devoted to analyzing claims.

Man-year requirements for all other activities of the Treasurer's Office -- the maintenance of accounts, custody of securities, etc. -- are being held to the 1971 level despite increased workloads and service demands.

Provision is made in this estimate for the partial automation during 1972 of the check claims activity. This will enable the Treasurer's Office to reduce future personnel requirements and to provide more prompt and efficient service to the general public in the processing of check claims.

U. S. SECRET SERVICE

The appropriation request for the U. S. Secret Service for the fiscal year 1972 totals $56,266,000, an increase of $10,866,000 over the proposed authorized level for 1971. The increase requested will provide funds for 360 additional positions (285 average positions for increases in protective activities and also for the maintenance of current employment levels including the full-year cost of the additional positions authorized on a part-year basis in the fiscal year 1971.

Executive Protective Service

The intensive recruitment campaign for the Executive Protective Service has been completely successful. The Service will become fully operational in the latter part of the current fiscal year when all recruits will have completed a comprehensive training course designed especially for the particular duties involved. For the fiscal year 1972, no additional positions or funds are being requested other than the amounts required for the full-year costs of previously authorized positions.

Candidate and Nominee Protection

The budget estimate provides for the additional agents and supporting clerical assistance necessary to complete the staffing needed to implement Public Law 90-331. Under this law the Secret Service is required to provide protection to all major presidential and vice presidential candidates. The experience gained during the 1968 campaign year revealed decisively the magnitude of the protective responsibilities involved as well as the need for the Service to be basically self-sufficient in performing them. In order to be in a position to provide the required protection in the campaign for the 1972 election, the Service in fiscal year 1970 commenced a program to acquire the additional manpower over a period of three years. In the off election years, the new agents will provide the additional investigative resources required to combat increases in counterfeiting and forgeries.

Funds are included to cover the extra travel and expenses related to the protection of the candidates and nominees which are expected to be incurred in the last half of fiscal 1972.

Counterfeiting

Counterfeiting activity in the country continues to reflect an increase. In the fiscal year 1970, cases received totaled 22,346, up 19 percent over fiscal year 1969. This increase has continued into the current fiscal year with 10,995 cases received in the first six months, up 9 percent over fiscal year 1970.

Forgeries

Check forgeries continued to increase for the fourth year in a row. The 62,094 cases received in fiscal year 1970 represented an increase of almost 8 percent over the 57,616 received in the fiscal year 1969. This increase is in approximately the same ratio as the increase in the issuance of Government checks.

Bond forgery cases have increased substantially in the current fiscal year. The 12,177 cases received in the first six months is a significant 77 percent increase over the 6,891 received in the first six months of fiscal year 1970.

To combat the increasing trends in counterfeiting as well as check and bond forgeries, the Service plans to utilize the additional agents requested for candidate protection for criminal investigations in the off election years.

Foreign Dignitary Protection

Public Law 91-651 approved January 5, 1971, assigned significant additional responsibilities to the Secret Service. Under this law, the Service is required to "protect the person of a visiting head of a foreign state or government and, at the direction of the President, other distinguished foreign visitors to the United States and official representatives of the United States performing special missions abroad." Pending an accumulation of operating experience and an evaluation of the program, no additional funds for implementation of this legislation are being requested at this time.

e Department of the TREASURY
[illegible] D.C. 20220 TELEPHONE W04-2041
NEWS

FOR IMMEDIATE RELEASE March 17, 1971

TREASURY'S MONTHLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $ 1,700,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing March 31, 1971, in the amount of $1,701,620,000, as follows:

275-day bills (to maturity date) to be issued March 31, 1971, in the amount of $ 500,000,000, or thereabouts, representing an additional amount of bills dated December 31,1970, and to mature December 31, 1971 (CUSIP No. 912793 KV7) originally issued in the amount of $1,201,185,000, the additional and original bills to be freely interchangeable.

366-day bills, for $ 1,200,000,000, or thereabouts, to be dated March 31, 1971, and to mature March 31, 1972 (CUSIP No. 912793 LZ7).

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, Thursday, March 25, 1971. 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. (Notwithstanding the fact that the one-year bills will run for 366 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 o 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 March 31, 1971, in cash or other immediately available funds or in a like face amount Treasury bills maturing March 31, 1971. 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 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.

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Department of the TREASURY
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NEWS

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FOR IMMEDIATE RELEASE March 17, 1971

PROPOSED REGULATIONS ON STOCK DIVIDENDS
ANNOUNCED BY TREASURY DEPARTMENT

The Treasury Department today announced proposed regulations implementing changes in the taxation of stock dividends made by the Tax Reform Act of 1969.

The proposed rules will be published in the Federal Register of March 18.

Although the Tax Reform Act generally left unchanged the tax-free treatment of common stock dividends to common shareholders, it did provide new rules for the taxation of stock distributions (or transactions to be treated as distributions) which increase some shareholders' proportionate interests in the earnings and profits or assets of their corporations. In addition, the Act provided new rules for the taxation of stock distributions on preferred stock and transactions which have the effect of stock distributions.

Before final adoption of the proposed regulations, Treasury will consider comments or suggestions submitted within 30 days from the date of publication in the Federal Register. If asked to do so, the Department will hold a public hearing on its proposals.

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Department of the TREASURY NEWS

[illegible] 20220 TELEPHONE W04-2041

FOR IMMEDIATE RELEASE March 17, 1971

TREASURY ANNOUNCES PROPOSED RULES ON
TAX DEDUCTIONS FOR MOVING EXPENSES

The Treasury Department today announced proposed rules for income tax deduction of job-related moving expenses by employees and self-employed persons.

The rules implement a provision of the Tax Reform Act of 1969 that increased the types of job-related moving expenses which are deductible, and extended deduction benefits to self-employed persons who relocate to find other employment. The changes in the law are expected to result in an annual tax saving of $110 million for individual taxpayers, including an estimated 500,000 employees transferred to new locations by their employers.

Under prior law, a taxpayer who incurred job-related moving expenses could deduct only the costs of transporting himself, members of his household, and their belongings from their old residence to their new residence, and costs of meals and lodging en route. Under the changed law, the taxpayer may also include the costs of pre-move house hunting trips, temporary living expenses at the general location of his new place of work, and certain expenses of selling a residence or terminating a lease at his former location and buying or leasing a residence at his new location (not including the cost of the residence itself).

Self-employed persons who move to a new principal place of work also were made eligible for the deduction benefits under certain conditions.

The Tax Reform Act also changed the minimum distance requirement for allowance of the moving expense deduction from 20 miles to 50 miles. In addition, it required that any amount received or accrued, either directly or indirectly, by the taxpayer as reimbursement or payment of moving expenses

which is attributable to employment or self-employment must be included in his gross income. As a result, for example, an employee who is reimbursed for moving expenses by his employer must first include the reimbursement in his income as wages, and then deduct his moving expenses to the extent allowed by the law.

Treasury's proposed regulations do not affect the moratorium on tax withholding and reporting by the military services on moving expense reimbursements of servicemen through December 31, 1971. This moratorium, announced by the Commissioner of Internal Revenue on November 30, 1970, continues unchanged.

Treasury's proposed regulations will be published in the Federal Register of March 18. They provide a period of 30 days from the date of publication for interested persons to comment on the proposals. On request, Treasury will hold a public hearing to consider comments on the proposed regulations.

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Department of the TREASURY

NEWS

[illegible], D.C. 20220 TELEPHONE W04-2041

FOR IMMEDIATE RELEASE

March 16, 1971

TREASURY OFFERS $2.2 BILLION STRIP OF WEEKLY BILLS

The Treasury Department, by this public notice, invites tenders for additional amounts of eleven series of Treasury bills to the aggregate amount of $2,200,000,000, or thereabouts, for cash. The additional bills will be issued April 6, 1971, will be in the amounts, and will be in addition to the bills originally issued and maturing, as follows:

[A]mount of [Ad]ditional Issue	Original Issue Dates 1971 (5)	Maturity Dates 1971 (6)	CUSIP NOS.	Days from April 6, 1971 (7) to Maturity	Amount Currently Outstanding (in millions)
100,000,000	January 7	July 8	912793 KX3	93	$ 1,402
100,000,000	January 14	July 15	912793 KY1	100	1,408
100,000,000	January 21	July 22	912793 KZ8	107	1,401
100,000,000	January 28	July 29	912793 LA2	114	1,400
100,000,000	February 4	August 5	912793 LC8	121	1,405
100,000,000	February 11	August 12	912793 LD6	128	1,400
100,000,000	February 18	August 19	912793 LE4	135	1,402
100,000,000	February 25	August 26	912793 LF1	142	1,402
100,000,000	March 4	September 2	912793 LG9	149	1,401
100,000,000	March 11	September 9	912793 LH7	156	1,401
100,000,000	March 18	September 16	912793 LJ3	163	1,400
[2],200,000,000	Tender minimum amount		Average	128	

The additional and original bills will be freely interchangeable.

Each tender submitted must be in the minimum amount of $110,000. Tenders over $110,000 must be in multiples of $55,000. One-eleventh of the amount tendered will be applied to each of the above series of bills.

The bills offered hereunder 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, Wednesday, March 31, 1971. Tenders will not be received at the Treasury Department, Washington. 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. A single price must be submitted for each tender. 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.

(OVER)

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.

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 these additional issues at a specific rate or price, until after one-thirty p.m., Eastern Standard time, Wednesday, March 31, 1971.

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 reject thereof. The Secretary of the Treasury expressly reserves the right to accept o reject any or all tenders, in whole or in part, and his action in any such respe shall be final. Subject to these reservations, noncompetitive tenders for $330,000 or less (in amounts as set forth in the second paragraph) without state price from any one bidder will be accepted in full at the average price (in thre 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 April 6, 1971.

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 betwe 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 durir the taxable year for which the return is made. Purchasers of a strip of the bil offered hereunder should, for tax purposes, take such bills on to their books on the basis of their purchase price prorated to each of the eleven outstanding issues using as a basis for proration the closing market prices for each of the issues on April 6, 1971. (Federal Reserve Banks will have available a list of these market prices, based on the mean between the bid and asked quotations furnished by the Federal Reserve Bank of New York.)

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

WASHINGTON, D.C. 20220 TELEPHONE W04-2041

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NEWS

FOR IMMEDIATE RELEASE March 19, 1971

DECISION ON EGGS FROM MEXICO
UNDER THE ANTIDUMPING ACT

Assistant Secretary of the Treasury Eugene T. Rossides announced today that chicken eggs in the shell from Mexico are being, and are likely to be, sold at less than fair value within the meaning of the Antidumping Act of 1921, as amended.

The case will now be referred to the Tariff Commission for a determination as to whether there has been injury to American industry. In the event of an affirmative determination, dumping duties will be assessable on all entries of eggs on which dumping margins exist.

Simultaneously with the determination of sales at less than fair value, the Treasury Department issued a withholding of appraisement order on the eggs. The significance of withholding is that if dumping duties were to become assessable, the date such assessments became effective would be that of the withholding action.

Both the determination of sales at less than fair value and the withholding order will be published in the Federal Register on Saturday, March 20. The withholding order, by its terms, will terminate within 3 months after issuance. A total of approximately 18,000 dozen eggs were imported from Mexico during all of 1970. From February 22 through March 17, 1971, approximately 867,000 dozen eggs were entered. During the past few days, the egg imports from Mexico were being entered at a rate of approximately 100,000 dozen a day.

The antidumping complaint in this case was filed on March 11, 1971, by United Egg Producers of Atlanta, Georgia. An Antidumping Proceeding Notice was published in the Federal Register of March 17, 1971.

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Department of the TREASURY

[illegible]ON, D.C. 20220 **TELEPHONE WO4-2041**

NEWS

ATTENTION: FINANCIAL EDITOR

FOR RELEASE 6:30 P.M.,

Monday, March 22, 1971.

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced that the tenders for two series of Treasury bills, one series to be an additional issue of the bills dated December 24, 1970 , and the other series to be dated March 25, 1971 , which were offered on March 16, 1971, were opened at the Federal Reserve Banks today. Tenders were invited for $1,900,000,000, or thereabouts, of 91-day bills and for $1,600,000,000, or thereabouts, of 182-day bills. The details of the two series are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	91-day Treasury bills maturing June 24, 1971		:	182-day Treasury bills maturing September 23, 1971	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	99.177	3.256%	:	98.265	3.432%
Low	99.146	3.378%	:	98.211	3.539%
Average	99.158	3.331% 1/	:	98.240	3.481% 1/

93% of the amount of 91-day bills bid for at the low price was accepted
41% 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	$ 23,390,000	$ 13,390,000	:	$ 12,370,000	$ 2,370,000
New York	2,380,245,000	1,452,545,000	:	2,215,960,000	1,299,280,000
Philadelphia	37,135,000	22,135,000	:	12,525,000	12,525,000
Cleveland	43,150,000	41,150,000	:	26,820,000	26,820,000
Richmond	10,355,000	10,355,000	:	2,955,000	2,955,000
Atlanta	47,145,000	41,145,000	:	31,960,000	25,255,000
Chicago	172,160,000	116,460,000	:	133,580,000	97,680,000
St. Louis	44,540,000	43,540,000	:	20,450,000	17,450,000
Minneapolis	30,510,000	23,510,000	:	43,200,000	38,200,000
Kansas City	40,335,000	40,335,000	:	15,665,000	15,665,000
Dallas	28,345,000	21,205,000	:	25,665,000	19,665,000
San Francisco	101,595,000	74,245,000	:	104,855,000	42,375,000
TOTALS	$2,958,905,000	$1,900,015,000 a/		$2,646,005,000	$1,600,240,000 b/

a/ Includes $255,905,000 noncompetitive tenders accepted at the average price of 99.158
b/ Includes $ 94,960,000 noncompetitive tenders accepted at the average price of 98.240
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 3.42% for the 91-day bills, and 3.60% for the 182-day bills.

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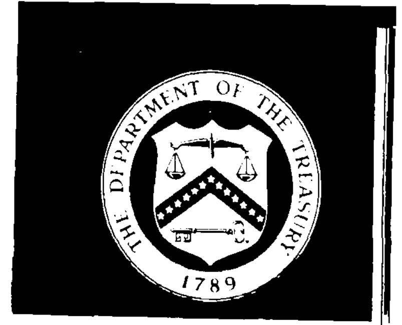
eDepartment of the TREASURY NEWS
HINGTON, D.C. 20220 TELEPHONE W04-2041



FOR RELEASE ON DELIVERY

STATEMENT OF SAMUEL R. PIERCE, JR.
GENERAL COUNSEL, U. S. TREASURY DEPARTMENT
BEFORE THE SUBCOMMITTEE ON POSTAL OPERATIONS
OF THE COMMITTEE ON POST OFFICE AND CIVIL SERVICE
ON H. R. 135
WEDNESDAY, MARCH 24, 1971, AT 10 A.M.

Mr. Chairman and Members of the Subcommittee:

I welcome this opportunity to appear before you to support H. R. 135, a bill designed to provide for the distribution, to the 50 States and to the District of Columbia, Puerto Rico, the Virgin Islands, and Guam, of most of the remaining funds representing unclaimed Postal Savings System accounts. This legislation is similar to H. R. 19400 introduced in the 91st Congress by you, Mr. Chairman, and Congressman Derwinski pursuant to a recommendation of this Department. Our purpose in recommending this legislation initially, and for supporting it now, has been to provide a more practical and equitable method than presently exists for the 50 States and the four other jurisdictions to obtain an appropriate portion of the unclaimed amounts, while retaining in the Treasury sufficient funds to meet possible future claims.

Liquidation under Public Law 89-377

I would like to review briefly the Treasury's liquidation of the Postal Savings System under Public Law 89-377, enacted March 28, 1966. The 1966 legislation, which originated in this Subcommittee, discontinued the Postal Savings System as of April 27, 1966, and transferred as of July 1, 1967, the remaining funds to the Treasury for deposit in a trust fund for unclaimed moneys and for liquidation. As of that date, the Post Office Department transferred to the Treasury a total of $56,789,000

to cover unpaid principal of $52,934,000 plus $3,855,000 for estimated accrued interest. On June 30, 1970, an additional amount of $8,350,000 was transferred by the Post Office Department to cover the unpaid liabilities for estimated accrued interest and principal, as reconstructed by the Treasury, making a total transfer of $65,139,000.

From July 1, 1967 to February 28, 1971 the Treasury has liquidated 83.5 percent of the original unpaid balance; that is, total payments of $54.4 million, consisting of $44.5 million in principal and $9.9 million for accrued interest. In terms of accounts paid, however, only 102,000 accounts have been paid or about 17.6 percent of the number unpaid as of July 1, 1967.

Available unclaimed funds and pro rata shares of the jurisdictions

As of the end of February, 1971 there was an aggregate liability of $10.7 million, consisting of $8.6 million for principal and $2.1 million for estimated accrued interest. This is the liability on the total of 477,500 unpaid accounts, most of which are small in amount. A table attached to my statement shows as of February 28, 1971 the remaining principal balance of the deposits which were made in each of the 50 States and the four other jurisdictions, and the percentage, or pro rata share, of each of these 54 entities in the total. The table also shows the amount of funds which each of the jurisdictions would have received if a first distribution of $5,000,000 had been made as of February 28. These figures and percentages will, of course, change as the liquidation continues. During fiscal year 1971 the Bureau of Accounts has been paying out at the rate of approximately $100,000 a month on claims.

Outline of the legislation

The first section of H. R. 135 would authorize the Secretary of the Treasury to determine how much of the balance in the trust fund account need reasonably be retained to pay future claims from rightful owners and then to distribute the surplus to the 54 jurisdictions on a pro rata basis. The pro rata basis is simply the ratio of the balance of each State account to the total amount available for current distribution. This first distribution would be made within sixty days after enactment of this bill and subsequent distributions would be made on such dates as the Treasury may set during the four following years. The balance finally retained after the fifth annual distribution would be held available to pay future claims. I think it is appropriate to state that even with this so-called retention balance, the States, as a whole, would have a considerably higher "net profit" under H. R. 135 than through any other means.

The second section would authorize appropriations without fiscal year limitation to the trust fund account, in the event that the trust fund balance, because of the distributions made under the first section, is insufficient to pay claims. The balance which will be retained in the trust fund after the fifth and final annual distribution will be the amount estimated to cover future claims. Inevitably, it will be slightly higher or lower than what will ultimately be needed.

Reason for the legislation

Since the passage of the 1966 Act many of the States have pressed claims, under their laws providing for State custody or escheat of

unclaimed funds, for the unclaimed accounts of Postal Savings depositors in those States. This Department opposed State claims for custody and administration of these unpaid accounts on the ground that the Department had no authority to transfer the custody and administration given to it by the Congress. However, the Postal Savings System Act had provided (39 U.S.C. 5222, 1964 ed.), and Federal courts had determined, that entitlement to an account should be determined by State courts. Consequently the Department issued regulations on August 12, 1969 (34 F.R. 13031; 31 CFR 257.3) providing for recognition of a State court judgment of escheat to the State under applicable State law, and for furnishing to a State, upon request, of records of "inactive" accounts, i.e., those which had been 20 years without activity at the time of transfer of records from the Post Office Department.

Enactment of H. R. 135 would eliminate significant burdens and expenses for the States, including legislative action to enact an appropriate escheat statute; sorting out the addresses on account cards acquired from the Treasury for all unliquidated accounts pertinent to the States; advertising such accounts in the appropriate locality or otherwise attempting to reach each depositor by mail; obtaining the State court judgment of escheat; and handling individual claims received after escheat. All burdens for the Treasury, which are implicit in the foregoing, would likewise be precluded by the proposed legislation. As for the general public, the bill would preserve for all future claimants the right to look directly to the United States for their money, promptly upon submission of their claims, as they fully expect.

I believe that the desirability of this legislation is recognized by those States which have taken an active interest in this subject. In fact, it is my understanding that several States are refraining from initiating court action to escheat the inactive accounts in expectation of the passage of this distribution legislation. At the request of this Department the Director of the Office of Intergovernmental Relations of the Office of the Vice President has recently advised the 53 Governors and the Mayor of Washington of the pendency of H. R. 135.

STATUS OF POSTAL SAVINGS ACCOUNTS

As of February 28, 1971, the total unpaid balance for the postal savings accounts on the books of the Treasury was $10,765,100.68 consisting of:

Unpaid principal	$ 8,645,728.77
Accrued interest	2,119,371.91
	$10,765,100.68

The attached schedule gives the breakdown of unpaid principal balances according to each of the 54 jurisdictions that would share in the distributions (the 50 States plus District of Columbia, Guam, Puerto Rico and Virgin Islands). It also shows the "sharing" percentage for each jurisdiction.

We expect that a total of $5,000,000 will be freed up for the first annual distribution. Thus, for example, New York State (which has the largest "sharing" percentage) would receive about $855,000 in the first year.

Note: The "sharing" percentage for each jurisdiction is the same whether computed on the basis of unpaid principal balances alone or unpaid principal and accrued interest combined. This is because the system-wide total of accrued interest is an estimate, distributable to the 54 jurisdictions proportionately according to the unpaid principal for each jurisdiction.

Treasury Department
Fiscal Service
Bureau of Accounts

POSTAL SAVINGS SYSTEM LIQUIDATION
UNPAID PRINCIPAL BALANCE BY LOCATION OF DEPOSITORY
AS OF FEBRUARY 28, 1971

LOCATION OF DEPOSITORY	ACTIVE ACCOUNTS	INACTIVE ACCOUNTS	TOTAL UNPAID PRINCIPAL BALANCE	% OF TOTAL	INITIAL DISTRIBUTION ILLUSTRATED 1/
ALABAMA	$ 72,639.00	$ 9,602.00	$ 82,241.00	1.0	$ 50,000
ALASKA	10,344.00	8,029.00	18,373.00	.2	10,000
ARIZONA	41,596.00	6,315.00	47,911.00	.6	30,000
ARKANSAS	49,947.00	8,757.00	58,704.00	.7	35,000
CALIFORNIA	743,773.00	108,766.00	852,539.00	9.9	495,000
COLORADO	45,681.00	15,520.00	61,201.00	.7	35,000
CONNECTICUT	109,100.00	16,874.00	125,974.00	1.5	75,000
DELAWARE	8,191.00	653.00	8,844.00	.1	5,000
FLORIDA	348,473.00	45,473.00	393,946.00	4.6	230,000
GEORGIA	107,601.00	5,397.00	112,998.00	1.3	65,000
HAWAII	4,601.00	3,370.00	7,971.00	.1	5,000
IDAHO	18,067.00	3,203.00	21,270.00	.3	15,000
ILLINOIS	1,074,968.00	252,789.00	1,327,757.00	15.4	770,000
INDIANA	142,906.00	16,023.00	158,929.00	1.8	90,000
IOWA	48,167.00	5,436.00	53,603.00	.6	30,000
KANSAS	43,096.00	5,482.00	48,578.00	.6	30,000
KENTUCKY	56,013.00	3,849.00	59,862.00	.7	35,000
LOUISIANA	45,036.00	18,308.00	63,344.00	.7	35,000
MAINE	6,397.00	1,698.00	8,095.00	.1	5,000
MARYLAND	43,986.00	6,868.00	50,854.00	.6	30,000
MASSACHUSETTS	175,844.00	34,365.00	210,209.00	2.4	120,000
MICHIGAN	440,292.00	50,609.00	490,901.00	5.7	285,000
MINNESOTA	41,962.00	13,995.00	55,957.00	.6	30,000
MISSISSIPPI	34,131.00	4,240.00	38,371.00	.4	20,000
MISSOURI	121,152.00	24,788.00	145,940.00	1.7	85,000
MONTANA	30,082.00	13,802.00	43,884.00	.5	25,000
NEBRASKA	91,928.00	4,709.00	96,637.00	1.1	55,000
NEVADA	15,977.00	4,050.00	20,027.00	.2	10,000
NEW HAMPSHIRE	5,824.00	4,814.00	10,638.00	.1	5,000
NEW JERSEY	160,872.00	38,421.00	199,293.00	2.3	115,000
NEW MEXICO	20,329.00	2,935.00	23,264.00	.3	15,000
NEW YORK	1,193,333.00	282,178.00	1,475,511.00	17.1	855,000
NORTH CAROLINA	91,532.00	7,768.00	99,300.00	1.1	57,000
NORTH DAKOTA	4,451.00	1,637.00	6,088.00	.1	5,000
OHIO	196,704.00	53,473.00	250,177.00	2.9	145,000
OKLAHOMA	61,435.00	6,514.00	67,949.00	.8	40,000
OREGON	54,009.00	18,621.00	72,630.00	.8	40,000
PENNSYLVANIA	515,840.00	85,262.00	601,102.00	6.9	347,000
RHODE ISLAND	16,232.00	3,467.00	19,699.00	.2	10,000
SOUTH CAROLINA	165,626.00	9,892.00	175,518.00	2.0	100,000
SOUTH DAKOTA	20,651.00	596.00	21,247.00	.3	15,000
TENNESSEE	46,638.00	6,133.00	52,771.00	.6	30,000
TEXAS	209,211.00	18,799.00	228,010.00	2.6	130,000
UTAH	12,740.00	1,486.00	14,226.00	.2	10,000
VERMONT	186.00	166.00	352.00	-	- 2/
VIRGINIA	40,532.00	15,622.00	56,154.00	.6	30,000
WASHINGTON	92,980.00	37,792.00	130,772.00	1.5	75,000
WEST VIRGINIA	20,812.00	5,242.00	26,054.00	.3	15,000
WISCONSIN	59,197.00	11,035.00	70,232.00	.8	40,000
WYOMING	4,833.00	3,552.00	8,385.00	.1	5,000
D.C.	223,577.00	31,073.00	254,650.00	2.9	146,000
GUAM	929.00	-	929.00	-	- 2/
PUERTO RICO	84,875.00	8,295.00	93,170.00	1.1	55,000
VIRGIN ISLANDS	13,024.00	305.00	13,329.00	.2	10,000
SUBTOTAL	$ 7,288,322.00	$ 1,348,048.00	$ 8,636,370.00	99.9	$5,000,000
ADD: Foreign	-	265.00	265.00	-	
ADD: Misc.	9,053.77	40.00	9,093.77	.1	
BALANCE	$ 7,297,375.77	$ 1,348,353.00	$ 8,645,728.77	100.0	

1/ Illustrates a distribution as of ~~February 28, 1971, assuming~~ a total amount of $5,000,000.

2/ Less than $1,000

DEPARTMENT OF THE TREASURY

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Department of the TREASURY NEWS

HINGTON, D.C. 20220 TELEPHONE W04-2041

FOR RELEASE ON DELIVERY

STATEMENT BY THE HONORABLE CHARLS E. WALKER
UNDER SECRETARY OF THE TREASURY
BEFORE
THE SUBCOMMITTEE ON AIR AND WATER POLLUTION OF
THE SENATE PUBLIC WORKS COMMITTEE ON S. 1015
TUESDAY, MARCH 23, 1971, AT 10:00 A. M.

Mr. Chairman:

I am pleased to be here today to express the Administration's strong support of S. 1015, a bill to establish an Environmental Financing Authority to assist in the financing of waste treatment facilities. It is especially gratifying that 38 members of the Senate -- including 10 members of this subcommittee -- have joined to introduce this legislation.

Simply stated, the Environmental Financing Authority, or EFA, would make a significant contribution to our program for a better environment by greatly facilitating the efforts of State and local governments to construct waste treatment facilities. This EFA would do by purchasing municipal waste treatment bonds which could not otherwise be sold on reasonable terms. To finance these purchases EFA would issue its own securities in the market.

EFA could not purchase any obligations unless the Administrator of the Environmental Protection Agency (1) has certified that the borrower is unable to obtain on reasonable terms sufficient credit to finance its actual needs; (2) has approved the project as eligible for a waste treatment construction grant under the Federal Water Pollution Control Act; and (3) has agreed to guarantee timely payment of principal and interest on the obligations.

To avoid unnecessarily interfering with the market, the bill provides an important safeguard: the interest rate at which EFA would lend would be set by the Secretary of the Treasury only after considering the current market yields on comparable Treasury or EFA securities outstanding in the private market as well as the market yields on municipal bonds. EFA would also be authorized to charge fees to cover its administrative costs and provide for reasonable contingency reserves.

In his February message -- "Program for a Better Environment" -- President Nixon presented a $12 billion proposal for the construction of municipal waste treatment facilities -- $6 billion in Federal grants over the next 3 years, and the remaining $6 billion to be financed by State and local governments. The President pointed out, however, that:

> Some municipalities need help in overcoming the difficulties they face in selling bonds on reasonable terms to finance their share of construction costs.
>
> The availability of funds to finance a community's pollution control facilities should depend not on its credit rating or the vagaries of the municipal bond market, but on its waste disposal needs.

In order to assure that no municipality in this country is denied the opportunity to sell its waste treatment plant construction bonds, the President proposed the creation of EFA.

Concerned people may well differ on the scope of the problem and the size of the funds necessary to deal with it. But there is no question that the time has come for the establishment of EFA if we mean business in fighting waste pollution.

Most municipal waste treatment bonds should be readily saleable in the private market on reasonable terms. EFA will be concerned only with the one out of perhaps four or five bond issues that is not readily marketable.

Let me illustrate this specifically with an example of how EFA would operate. Let's say that tax-exempt waste treatment bonds of medium quality or better are selling in the current market at interest rates ranging from 5 to 6 percent, and that 80 percent of the bond issues can be marketed within this range. Under such circumstances, EFA might stand ready to lend at a 6 percent interest rate, so as to provide a reasonable rate for the remaining 20 percent of the bonds issued. Thus EFA would have the effect of setting a ceiling on the interest rate which state and local governments are required to pay.

At the same time, we do not want to get locked into an inflexible ceiling rate in the bill, a rate that might get out of line with the current market. If the rate is too low, for example, EFA would be pressured to purchase many bonds which could have been readily placed in the private market. Accordingly, the bill gives us sufficient flexibility to assure that the EFA lending rate can be adjusted from time to time with changes in overall market rates.

Under present market conditions EFA might be paying about 7 percent on its own long-term taxable borrowings and purchasing tax-exempt municipal waste treatment obligations at about 6 percent. Under the bill, the 1 percentage point difference between EFA's borrowing and lending rates would be made up by an annual payment from the Secretary of the Treasury to EFA. It is our belief that this payment would not involve a net cost, however, since it would be offset by the additional revenues which the Treasury would receive because of the substitution of taxable for non-taxable obligations.

Besides this advantage of being a simple and costless operation, EFA could contribute significantly to the success of the whole waste treatment facility program. With EFA standing ready to assure a market, no essential project need be canceled or delayed because the state or local government is unable to market its bond issue on reasonable terms.

Now I know that many questions were raised about EFA when it was first proposed by the Administration last year, and the Treasury provided this committee with specific answers to these questions. I have attempted in this brief statement only to clarify the major issues.

I am happy to note, Mr. Chairman, that the EFA proposal was strongly endorsed last year by the distinguished Advisory Commission on Intergovernmental Relations. I believe that the Commission is well qualified to provide a

truly intergovernmental view on such matters, since it includes in its membership a number of governors, mayors, county officials, and members of State legislative bodies as well as representatives of the Congress, the Executive branch, and the private sector. The Chairman of this Committee has long been a member of the Commission.

I respectfully request that this Committee consider carefully the Commission's statement on EFA which deals directly with the questions raised in last year's hearings. We would be happy to make copies of the statement available to this committee.

Mr. Chairman, I know that this Committee has gone over this ground before and that you have other witnesses scheduled this morning. I will end my prepared statement at this point, but I will be happy to respond to any questions which you or other committee members may have.

We strongly urge that this Committee act promptly and favorably on S. 1015 so that we can get on with the job of cleaning up our environment -- a task too long delayed.

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Department of the TREASURY

SHINGTON, D.C. 20220 TELEPHONE W04-2041

NEWS

FOR IMMEDIATE RELEASE

March 23, 1971

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 $3,500,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing April 1, 1971, in the amount of $3,305,065,000, as follows:

91-day bills (to maturity date) to be issued April 1, 1971, in the amount of $1,900,000,000, or thereabouts, representing an additional amount of bills dated December 31, 1970, and to mature July 1, 1971 (CUSIP NO. 912793 KQ8) originally issued in the amount of $1,402,020,000 (an additional $200,745,000 was issued February 26, 1971), the additional and original bills to be freely interchangeable.

182-day bills (to maturity date) to be issued April 1, 1971, in the amount of $1,600,000,000, or thereabouts, representing an additional amount of bills dated September 30,1970, and to mature September 30, 1971 (CUSIP NO. 912793 KS4), originally issued in the amount of $1,202,480,000 (an additional $500,550,000 was issued December 31,1970), the additional and original bills to be freely interchangeable.

The bills of both series will be issued on a discount basis under competitive and noncompetive bidding as hereinafter provided, and at maturity their face amount will be payable without interest. They will be issued in bearer form only, and in denominations of $10,000, $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, March 29, 1971. 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 receiv
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 accompa
by an express guaranty of payment by an incorporated bank or trust
company.

Immediately after the closing hour, tenders will be opened at th
Federal Reserve Banks and Branches, following which public announceme
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 shal
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 decima
of accepted competitive bids for the respective issues. Settlement f
accepted tenders in accordance with the bids must be made or complete
at the Federal Reserve Bank on April 1, 1971,
in cash or other immediately available funds or in a like face amount
Treasury bills maturing April 1, 1971. Cash and exchange tend
will receive equal treatment. Cash adjustments will be made for
differences between the par value of maturing bills accepted in
exchange and the issue price of the new bills.

Under Sections 454 (b) and 1221 (5) of the Internal Revenue Cod
of 1954 the amount of discount at which bills issued hereunder are so
is considered to accrue when the bills are sold, redeemed or otherwis
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 pa
for the bills, whether on original issue or on subsequent purchase, a
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 this
notice, prescribe the terms of the Treasury bills and govern the
conditions of their issue. Copies of the circular may be obtained fr
any Federal Reserve Bank or Branch.

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Department of the TREASURY

NEWS

ON, D.C. 20220   TELEPHONE WO4-2041

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FOR RELEASE 6:30 p.m.,
Wednesday, March 24, 1971.

RESULTS OF TREASURY'S OFFER OF ADDITIONAL $2 BILLION OF APRIL TAX BILLS

The Treasury Department announced that the tenders for an additional $[illegible],000,[illegible] or thereabouts, of Tax Anticipation Series Treasury bills dated July 23, 1970, maturi[illegible] April 22, 1971, were opened at the Federal Reserve Banks today. The additional amount of bills, which were offered on March 16, 1971, will be issued March 30,1971, (23 days to maturity date).

The details of this issue are as follows:

Total applied for - $5,094,635,000
Total accepted - $2,000,395,000 (includes $8,065,000 entered on a noncompetitive basis and accepted in full at the average price shown below)

Range of accepted competitive bids:

High	- 99.773	Equivalent rate of discount approx.	3.553% per annum
Low	- 99.761	" " " " "	3.741% " "
Average	- 99.765	" " " " "	3.678% " " 1/

(78% of the amount bid for at the low price was accepted)

Federal Reserve District	Total Applied For	Total Accepted
Boston	$ 20,720,000	$ 720,000
New York	3,719,200,000	1,555,200,000
Philadelphia	60,475,000	3,475,000
Cleveland	78,305,000	29,805,000
Richmond	285,000	285,000
Atlanta	13,000,000	1,000,000
Chicago	492,920,000	131,340,000
St. Louis	23,875,000	16,495,000
Minneapolis	10,870,000	870,000
Kansas City	33,385,000	16,845,000
Dallas	94,300,000	17,760,000
San Francisco	547,300,000	226,600,000
Total	$5,094,635,000	$2,000,395,000

1/ This is on a bank discount basis. The equivalent coupon issue yield is 3.75%.

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Department of the TREASURY

[WASHING]TON, D.C. 20220 TELEPHONE W04-2041

NEWS

FOR IMMEDIATE RELEASE March 25, 1971

The Alexander Hamilton Award, highest honor of the U.S. Treasury Department, today was presented to former Secretary of the Treasury David M. Kennedy.

Mr. Kennedy, who now is U.S. Ambassador-at-Large, was given the certificate by his successor, Treasury Secretary John B. Connally, in ceremonies at the Main Treasury offices where Mr. Kennedy served from January 22, 1969 to February 11 of this year.

The Citation read by Mr. Connally:

> "David M. Kennedy, as Secretary of the Treasury from January 22, 1969, to February 11, 1971, provided perceptive and determined leadership during a time when the nation was grappling with serious domestic and international economic problems.
>
> "His economic statemanship was a major factor in maintaining international monetary stability and confidence during his period in office. His wise analysis and unflinching support for the policies necessary to reduce inflationary pressures will long be remembered as the needed steps to return the nation to stable economic growth.
>
> "Secretary Kennedy's extensive knowledge of financial markets and Treasury operations enabled him to put together a talented, dedicated and loyal staff which earned for the Department a reputation for excellence."

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Department of the TREASURY

[illegible]GTON, D.C. 20220 TELEPHONE W04-2041

NEWS

ATTENTION: FINANCIAL EDITOR

FOR RELEASE 6:30 P.M.,
Thursday, March 25, 1971.

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 December 31, 1970 , and the other series to be dated March 31, 1971 , which were offered on March 17, 1971, were opened at the Federal Reserve Banks today. Tenders were invited for $ 500,000,000, or thereabouts, of 275-day bills and for $ 1,200,000,000, or thereabouts, of 366 -day bills. The details of the two series are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	275-day Treasury bills maturing December 31, 1971		366-day Treasury bills maturing March 31, 1972	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv. Annual Rate
High	97.349	3.470%	96.372 a/	3.569%
Low	97.296	3.540%	96.296	3.643%
Average	97.321	3.507% 1/	96.354	3.586% 1/

a/ Excepting one tender of $200,000
73% of the amount of 275-day bills bid for at the low price was accepted
74% of the amount of 366-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	$ 11,020,000	$ 750,000	$ 11,290,000	$ 290,000
New York	1,186,160,000	388,350,000	1,805,395,000	991,895,000
Philadelphia	1,280,000	1,280,000	855,000	855,000
Cleveland	22,770,000	9,610,000	40,945,000	23,945,000
Richmond	900,000	900,000	4,515,000	4,515,000
Atlanta	18,340,000	3,040,000	16,455,000	5,155,000
Chicago	110,780,000	67,970,000	159,875,000	133,575,000
St. Louis	12,370,000	7,370,000	12,905,000	7,905,000
Minneapolis	9,415,000	9,415,000	3,535,000	3,535,000
Kansas City	4,910,000	4,910,000	7,480,000	7,480,000
Dallas	23,470,000	3,470,000	23,380,000	5,380,000
San Francisco	89,000,000	3,000,000	90,565,000	15,565,000
TOTALS	$1,490,415,000	$ 500,065,000 b/	$2,177,195,000	$1,200,095,000 c/

b/ Includes $16,965,000 noncompetitive tenders accepted at the average price of 97.321
c/ Includes $25,865,000 noncompetitive tenders accepted at the average price of 96.354
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 3.64% for the 275-day bills, and 3.75% for the 366-day bills.

Department of the TREASURY
[...]NGTON, D.C. 20220 TELEPHONE W04-2041

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NEWS

FOR RELEASE UPON DELIVERY

STATEMENT OF THE HONORABLE PAUL A VOLCKER
UNDER SECRETARY OF THE TREASURY FOR MONETARY AFFAIRS
ON H.R. 6077
BEFORE THE SUBCOMMITTEE ON LEGAL AND MONETARY AFFAIRS
OF THE HOUSE COMMITTEE ON GOVERNMENT OPERATIONS
MARCH 30, 1971, 10:00 A.M., EST

Mr. Chairman and Members of the Committee:

We appreciate the opportunity to appear before you in support of H.R. 6077, introduced by Chairman Holifield for himself and Mrs. Dwyer. The bill is identical to a draft bill the Treasury Department transmitted to the Congress on March 9, 1971. It is also identical to S. 1181, which has been passed by the Senate and referred to your Committee. We are particularly appreciative of your prompt scheduling of the bill for consideration.

The purpose of the proposed legislation is to help maintain a broad market in Government securities by minimizing, to the extent possible, risks of certain financial losses that holders now bear in the case of loss or theft of Government securities.

Under existing law the Secretary of the Treasury may, after maturity, make payment to the owner of a bearer Government security which has been lost or stolen and which has not been presented for payment by a holder in due course. The Secretary cannot, however, replace such a security before maturity. As a result, participants in the Government securities market, particularly financial institutions which handle large volumes of these securities, run the risk that they will be deprived of the use of their security or its equivalent value in money for the period of time between a loss or theft and maturity.

The bill would remove this risk, to the extent that the Government can do so without subjecting itself to financial risk, by authorizing the Secretary to give relief on account of lost or stolen bearer securities before, as well as after, maturity.

The bill uses the generic word "relief" to describe the action the Secretary may take. For many years Treasury regulations on the subject (31 CFR, Subpart N) have used this term to cover (1) payment, as the means of settling a claim after maturity, and (2) replacement, as the means of settling a claim before maturity.

After enactment of the bill, owners of bearer Government securities that are lost or stolen will incur substantial financial loss only in those infrequent cases where the securities come into the hands of holders in due course who are entitled to redeem them. This reduced exposure to financial loss will help assure that financial institutions will be able to continue to deal in and hold Government securities. By avoiding a contraction in the market from a needless withdrawal of participants, we will be acting to preserve an efficient and economical vehicle for Treasury financing.

The problem posed for the marketing of Government securities by the exposure of financial institutions to financial risks from the loss and theft of securities was dramatized by events which occurred last fall. Reports of losses and thefts of Government securities had jumped from only $4 million in 1966 to over $32 million in 1969, and were running at a rate of $30 million for 1970. There is attached to this statement as an exhibit a table covering these reports by years.

Our experience indicates the vast proportion of lost or stolen securities are never redeemed, and thus the Treasury will eventually provide relief. But the investor is out of funds for a prolonged period. Consequently, faced with this large increase in losses, certain major insurers of banks and brokers in New York City notified their policy holders that coverage would be sharply curtailed after December 31, 1970. In fact, insurance against the loss of bearer Government securities was withdrawn entirely for brokerage houses, and greatly reduced for banks by increases in deductibles, requirements for loss

sharing, and other provisions. Most, if not all, financial institutions felt that they would not be able to continue to handle Government securities without greater insurance protection. It appeared, therefore, that the mechanism for marketing Government securities might cease to function.

If that had happened, the Government would not have been able to sell its obligations. Government obligations are a form of investment for a very wide range of investors -- banks and other financial institutions, corporations, governments, various kinds of funds, individuals. One of their attractions is that they are relatively liquid -- they can be sold quickly because there is a very broad market for them. This market exists not only because the securities are attractive to ultimate investors but also because there is a highly developed network of intermediaries who buy and sell as well as hold the securities. We are totally dependent on this market mechanism in our vast financing operations.

The prospect of a breakdown in this mechanism was avoided last fall by an action program that persuaded market participants and their insurers that steps would be taken to reduce the financial risk from exposure to losses and thefts. A key element in this program was a commitment by the Treasury to seek Congressional approval to replace lost or stolen securities before maturity. The bill before this Committee is the result.

A hypothetical, but factually typical case, might be useful to illustrate how enactment of the bill would provide substantial relief. Assume a bank holding Government securities discovers that they are missing. It or its insurance company would then file a claim for relief with the Treasury. Under existing law, the Treasury could not entertain the claim until after maturity of the securities. In such a case, the bank or its insurance company would be deprived of the use of the money for that entire period, even though the Treasury would retain the funds it had borrowed under the obligation. With losses and thefts sharply increased in recent years, investment institutions and insurance companies felt it necessary to reappraise their policies.

Under the bill, on the other hand, the Treasury can immediately consider the claim, and replace the security that

has been lost, thus restoring to the bank the use of the security or its value for the period. At the same time, enactment of the bill will not result in any financial risk for the Government because a bond of indemnity will be obtained in every case in which relief is granted. If the security for which relief has been granted is presented for redemption and must be paid, the United States will be protected against double payment by recovery under the bond of indemnity.

In the long run the bill will result in reduced expenditures in the administrative handling of claims for relief; claims will not be held in suspense and the cost of much correspondence and many telephone calls and wires between the Treasury and the claimants will be avoided. A small initial increase in the administrative expenses of the Bureau of the Public Debt, as it moves quickly to handle all pending cases involving unmatured securities, will be absorbed in its current appropriation.

I would emphasize that this proposed legislation deals only with one narrow point -- minimizing, to the extent the Government can without incurring costs for itself, the financial losses that flow from the loss or theft of Government securities. It does not deal with the prevention of losses and thefts.

We do have other programs, however, which deal with that aspect of the problem. First, we have the Federal Reserve's list of securities reported lost or stolen against which every security presented to a Federal Reserve Bank is checked. This list, together with the cooperation of law enforcement agencies, has resulted in the apprehension of a number of passers of stolen securities. At the same time, we expect that expansion of our computerized system for recording ownership of securities, which we call our "book-entry system", will greatly reduce the need for physical pieces of paper to evidence ownership -- pieces of paper which can be lost or stolen. This program was inaugurated four years ago and is being expanded as rapidly as possible.

Until recently mechanical capabilities limited the system to those securities which could have been deposited with the

Federal Reserve Banks in physical form. With the experience gained in these years, and with the addition of new equipment, the Reserve Banks are now able to accept holdings of securities of investor groups vital to the functioning of a broad Government securities market. These categories include investment portfolios of banks, trading accounts of dealers, and brokerage accounts. Several institutions have taken advantage of the system since it became available to them in expanded form last month, and others are working to conform their own operations in order to do so. We believe that this system will in time sharply reverse the rising trend of losses and thefts in the Government securities market. But prompt action on the legislation before this Committee is vital to the continued healthy functioning of that market in today's circumstances.

STATISTICAL SUMMARY OF CLAIMS FOR RELIEF FILED WITH TREASURY DEPARTMENT ON ACCOUNT OF LOSS, THEFT, DESTRUCTION, ETC., OF UNITED STATES TREASURY AND AGENCY SECURITIES--1966-1970

CLAIMS RECEIVED	1966		1967		1968		1969		1970		Total	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
Treasury: Registered securities (Bonds, Notes)	125	$513,900	118	$471,500	137	$970,500	139	$833,200	121	$1,070,200	640	$3,859,300
Bearer securities Bills	25	1,308,000	33	3,193,000	51	3,351,000	114	26,610,000	182	12,362,000	405	46,824,000
All others	133	1,561,100	134	2,760,500	199	3,069,900	228	3,891,600	254	8,825,900	948	20,109,000
Agency Issues	18	640,000	14	312,000	26	840,000	48	1,414,000	95	8,396,500	201	11,602,500
TOTAL	301	$4,023,000	299	$6,737,000	413	$8,231,400	529	$32,748,800	652	$30,654,600	2194	$82,394,800

RELIEF GRANTED	1966		1967		1968		1969		1970		Total	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
Treasury: Registered securities (Bonds, Notes)	56	$222,100	40	$114,000	61	$167,400	60	$197,200	50	$578,800	267	$1,279,500
Bearer securities Bills	4	151,000	11	814,000	8	1,230,000	17	802,000	31	11,594,000	71	14,591,000
All others	13	93,000	6	63,000	14	238,100	15	1,784,500	24	2,561,000	72	4,739,600
Agency issues	1	500	5	290,000	6	61,000	3	25,000	3	176,000	18	552,500
TOTAL	74	$466,600	62	$1,281,000	89	$1,696,500	95	$2,808,700	108	$14,909,800	428	$21,162,600

NOTE: (a) An individual claim may relate to one or more Treasury or Agency securities.
(b) The figures shown for the amount of "Relief Granted" for 1966 are slightly understated; they do not reflect the relief given for claims filed prior to 1964.
(c) The figures shown for "Relief Granted" do not necessarily relate to the "Claims Received" in the same year.

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Department of the TREASURY NEWS

HINGTON, D.C. 20220 TELEPHONE W04-2041

ATTENTION: FINANCIAL EDITOR

FOR RELEASE 6:30 P.M.,

Monday, March 29, 1971.

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced that the tenders for two series of Treasury bills, one series to be an additional issue of the bills dated December 31, 1970, and the other series to be an additional issue of the bills dated September 30, 1970, which were offered on March 23, 1971, were opened at the Federal Reserve Banks today. Tenders were invited for $1,900,000,000, or thereabouts, of 91-day bills and for $1,600,000,000, or thereabouts, of 182-day bills. The details of the two series are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	91-day Treasury bills maturing July 1, 1971		182-day Treasury bills maturing September 30, 1971	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv. Annual Rate
High	99.130 a/	3.442%	98.160 b/	3.640%
Low	99.090	3.600%	98.114	3.731%
Average	99.110	3.521% 1/	98.132	3.695% 1/

a/ Excepting 1 tender of $1,300,000; b/ Excepting 1 tender of $100,000
9% of the amount of 91-day bills bid for at the low price was accepted
47% 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	$ 19,780,000	$ 9,780,000	$ 12,510,000	$ 2,510,000
New York	2,250,845,000	1,362,295,000	2,235,700,000	1,332,300,000
Philadelphia	33,975,000	19,975,000	6,290,000	6,290,000
Cleveland	35,690,000	35,690,000	20,205,000	15,205,000
Richmond	11,830,000	11,830,000	13,300,000	13,300,000
Atlanta	38,150,000	38,150,000	21,570,000	12,570,000
Chicago	229,100,000	199,100,000	162,510,000	127,630,000
St. Louis	56,610,000	55,610,000	24,375,000	19,375,000
Minneapolis	32,155,000	27,335,000	21,720,000	10,720,000
Kansas City	32,350,000	32,350,000	14,015,000	14,015,000
Dallas	29,750,000	21,750,000	26,230,000	9,230,000
San Francisco	114,660,000	86,550,000	113,960,000	36,860,000
TOTALS	$2,884,895,000	$1,900,415,000 c/	$2,672,385,000	$1,600,005,000 d/

c/ Includes $239,465,000 noncompetitive tenders accepted at the average price of 99.110
d/ Includes $103,705,000 noncompetitive tenders accepted at the average price of 98.132
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 3.61% for the 91-day bills, and 3.83% for the 182-day bills.

Department of the TREASURY
[WASH]INGTON, D.C. 20220 TELEPHONE WO4-2041

NEWS

FOR IMMEDIATE RELEASE March 30, 1971

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 $3,500,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing April 8, 1971, in the amount of $3,404,445,000, as follows:

91-day bills (to maturity date) to be issued April 8, 1971, in the amount of $1,900,000,000, or thereabouts, representing an additional amount of bills dated January 7,1971, and to mature July 8, 1971 (CUSIP No. 912793 KX3) originally issued in the amount of $1,401,705,000 (an additional amount of approximately $200,000,000 will be issued on April 6, 1971) the additional and original bills to be freely interchangeable.

182 - day bills, for $ 1,600,000,000, or thereabouts, to be dated April 8, 1971, and to mature October 7, 1971 (CUSIP No. 912793 LL8).

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, April 5, 1971. 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 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 accompan by an express guaranty of payment by an incorporated bank or trust company.

Immediately after the closing hour, tenders will be opened at th Federal Reserve Banks and Branches, following which public announceme 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 shal 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 decima of accepted competitive bids for the respective issues. Settlement f accepted tenders in accordance with the bids must be made or complete at the Federal Reserve Bank on April 8, 1971, in cash or other immediately available funds or in a like face amount Treasury bills maturing April 8, 1971. Cash and exchange tend will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

Under Sections 454 (b) and 1221 (5) of the Internal Revenue Cod of 1954 the amount of discount at which bills issued hereunder are so is considered to accrue when the bills are sold, redeemed or otherwis 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 pa for the bills, whether on original issue or on subsequent purchase, a 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 this notice, prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained fr any Federal Reserve Bank or Branch.

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Department of the TREASURY

WASHINGTON, D.C. 20220 TELEPHONE WO4-2041

NEWS

FOR RELEASE ON DELIVERY

STATEMENT BY THE HONORABLE CHARLS E. WALKER
UNDER SECRETARY OF THE TREASURY
BEFORE THE SUBCOMMITTEE ON FINANCIAL INSTITUTIONS
OF THE SENATE COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS
WEDNESDAY, MARCH 31, 1971

Mr. Chairman and Members of the Committee:

I am pleased to appear here today to testify on S. 1201, introduced by you, Mr. Chairman, and on H. R. 4246, which was passed by the House of Representatives on March 10. We recommend prompt enactment of H. R. 4246, with one amendment, and I would like to take up this bill before turning to your proposal.

Section 1 of H. R. 4246 would extend until March 31, 1973, the authority, first enacted in September 1966, under which the Federal Reserve Board, the Federal Deposit Insurance Corporation, and the Federal Home Loan Bank Board have been regulating interest rates payable on time and savings deposits. As you know, this authority lapsed on March 22 but has now been extended to June 1, 1971.

Under present circumstances, with market interest rates having declined sharply from last year's peaks, and little disposition on the part of thrift institutions to increase their rates on savings and time deposits, the lapsing of this authority did not have severe consequences.

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But had this same lapse occurred in 1969 under mounting credit pressures, one might well have seen an outbreak of the same sort of destructive rate competition that occurred in 1966 and that led to enactment of the present law.

The regulation of interest rates paid by banks and savings and loan associations during the past 4-1/2 years has been useful. Such controls, of course, do little to solve the fundamental problem of competitive equality among thrift institutions, nor can they insulate banks and savings and loan associations from disintermediation in a period of tight money and high interest rates.

We believe, however, that a 2-year extension of the authority is desirable. The President's Commission on Financial Structure and Regulation is studying the interest-rate control problem intensively, and plans to report to the President before the end of this year. Extension of the authority for two years, therefore, will provide sufficient time for submission of the Commission's report, followed by enactment of whatever legislation may be necessary to deal with the fundamental problem.

Section 2 of the bill would extend the authority of the President to issue orders and regulations to stabilize prices, rents, wages and salaries under the Economic Stabilization Act of 1970, to the earlier of March 31, 1973 or to the expiration of a six-month period, beginning on the date the President issues the first order or regulation pursuant to the Act.

With the exception of one proposed change which I shall discuss shortly, we support this provision of H. R. 4246. However, as Secretary Connally emphasized in testifying before the House Banking and Currency Committee, we do not believe that a panoply of general wage and price controls is needed at this time, nor do we believe that the American people would tolerate such regimentation under present circumstances. It is, therefore, highly unlikely that the President would impose a network of general controls without a further specific mandate from the Congress, indicating widespread support for such action. At the least, any such mandate should involve an actual appropriation of the $20 million for administrative expenses authorized by Section 3 of H. R. 4246.

Section 2 of the bill would extend the authority of the President to issue orders and regulations to stabilize prices, rents, wages and salaries under the Economic Stabilization Act of 1970, to the earlier of March 31, 1973 or to the expiration of a six-month period, beginning on the date the President issues the first order or regulation pursuant to the Act.

With the exception of one proposed change which I shall discuss shortly, we support this provision of H. R. 4246. However, as Secretary Connally emphasized in testifying before the House Banking and Currency Committee, we do not believe that a panoply of general wage and price controls is needed at this time, nor do we believe that the American people would tolerate such regimentation under present circumstances. It is, therefore, highly unlikely that the President would impose a network of general controls without a further specific mandate from the Congress, indicating widespread support for such action. At the least, any such mandate should involve an actual appropriation of the $20 million for administrative expenses authorized by Section 3 of H. R. 4246.

Clearly, however, the broad authority granted to the President under this legislation can be highly useful in helping to promote noninflationary decisions in specific industries in which increases in costs and prices are most pronounced, and which are clearly unjustified. The President utilized such authority, under the Economic Stabilization Act of 1970, only day-before-yesterday, in issuing an Executive Order providing for the stabilization of wages and prices in the construction industry. I submit this Executive Order for the record.

I should add that the arrangements authorized in the Executive Order in no sense constitute the imposition of Government-administered wage and price controls. They are instead a system of restraints which are to be applied on a self-executing basis.

The 2-year extension of the President's wage-price authority, because of its applicability to specific industries, is clearly in the public interest. However, we question the wisdom of limiting the application of the authority, in actual practice, to six months. Such a limit would seem to serve no useful purpose, nor would it provide any significant safeguards against abuse of such authority,

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especially in view of the fact that we have made clear that there is small chance that the general powers would be invoked without a further specific mandate from the Congress.

We therefore recommend elimination of the six-months limit on the application of the authority.

Mr. Chairman, let me now comment briefly on several provisions of your bill, S. 1201.

Section 1 is substantially the same as Section 1 of H. R. 4246.

Section 2 would exempt Section 708 of the Defense Production Act of 1950 -- having to do with voluntary agreements and programs and exemptions from anti-trust laws and the Federal Trade Commission Act -- from the present June 30, 1972 termination date of the Defense Production Act. We would have no objection to enactment of this provision. On the other hand, the matter is not of pressing importance at the present time.

Section 3 of S. 1201 provides only a 6-month extension of the authority of the President to regulate prices, rents and wages and salaries under the Economic Stabilization Act of 1970. For reasons just noted, we believe that a longer extension is preferable.

Section 4 would provide authority for the Federal Reserve Board to establish variable reserve requirements based on different classes of bank assets. The purposes for which this authority would be exercised, as set forth in S. 1201, would contemplate very basic and fundamental changes in our financial structure. It is my understanding that the Commission on Financial Structure and Regulation is explicitly considering the implications of reserve requirements based on asset structure and will have recommendations to make in its report.

We would hope that the Congress would want to consider the views of the Commission before acting in this area. At least until the Commission has reported, the Administration would be strongly opposed to the enactment of this provision.

Finally, Section 5 of 1201 would authorize the Federal Reserve Board to exercise very broad powers to regulate credit upon its own determination as well as upon authorization by the President. In our view, it is preferable that the decision continue to be lodged entirely with the President as the elected chief executive officer of the Government, rather than with

an independent Board which is not directly responsible either to the President or to the public.

Mr. Chairman, I shall be pleased to respond to any questions.

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Department of the TREASURY

NEWS

HINGTON, D.C. 20220 TELEPHONE W04-2041

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FOR IMMEDIATE RELEASE March 31, 1971

MEMORANDUM FOR THE PRESS:

Attached is a copy of the sixth semiannual report on U.S. purchases and sales of gold and other reserve assets and the state of the U. S. gold stock forwarded by Treasury Secretary John B. Connally to the President of the Senate, Speaker of the House and appropriate committee chairmen. The report covers the second half of 1970.

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Attachments

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Semiannual Report on Purchases and Sales of Gold
and Other Reserve Assets and the
State of the U. S. Gold Stock
July 1 - December 31, 1970

U. S. reserve assets declined by $1,841 million in the second half of 1970 compared to a decline of $636 million in the first half, or a total of $2.5 billion for the year as a whole. Had it not been for the allocation of $867 million in SDR at the beginning of the year, the total decline in reserves would have been $3.3 billion. On either basis, the decline was the largest experienced in any single year, a result that is not surprising in light of the fact that our official settlements deficit on the balance of payments was also the largest recorded.

In the early part of the year the United States acquired SDR over and above its allocation through purchases from other countries. In the second half, there were net sales by the United States, for a net use of SDR of $16 million for the year. The principal transaction was the sale of $110 million to Belgium in December.

Foreign exchange reserves of the United States declined by $503 million in the second half, considerably less than in the first half when the United Kingdom and France were repurchasing their currencies that had been obtained by the United States under swap arrangements. For the year as a whole, U. S. foreign exchange holdings declined by $2,152 million.

Gold reserves of the United States declined by $787 million, all in the second half of 1970. This decline is largely accounted for by two transactions with the International Monetary Fund. The U. S. quota payment in December 1970, 25% of which was payable in gold, resulted in a $385 million transfer to the IMF. This payment did not represent a net loss of reserves, however, because our gold tranche position in the IMF was increased equally. The other transaction was the resale to the IMF by the U. S. of $400 million in gold out of a total of $800 million sold by the IMF to the United States in the years 1956-1960. There is attached a Treasury press release describing this latter transaction and other gold transactions which took place between the U. S. and the IMF at the same time.

Also attached are two tables detailing by country and by quarter U. S. gold transactions. Table I shows what might be called regular transactions, which result in a rise or fall in the U. S. gold holdings. Table II lists gold sales which were made by the United States to countries which paid the gold to the International Monetary Fund in connection with the quota increase

of 1970. In the latter case, an equivalent amount of gold was sold to the U. S. by the IMF so that there was no net change in the U. S. gold stock. It should be noted that this operation differs from that of five years earlier when the IMF deposited rather than sold gold to the U. S. Under the procedure followed in 1965, there was an eventual actual decline in U. S. gold reserves, although this decline is spread over time, as the gold deposits are withdrawn gradually by the IMF. In the present instance, the sale of gold is outright and not subject to reversa The dollars received by the IMF in payment for the gold did, however, erode the U. S. super gold tranche position in the IMF.

Reverting to Table I, as already noted, the major transactions were directly with the IMF. The bulk of the remaining transactions represented sales of gold by the U. S. to other countries for payments due the IMF or other financial institution but not subject to resale by the IMF as described above. Aside from these transactions, the only transactions significantly (over $5 million) affecting the gold reserves of other countries were the sale by the U. S. of $50 million each in gold to the Netherlands and Switzerland and the purchases by the U. S. of gold amounting to $51 million from Spain, $21 million from Burma and $25 million from Kuwait.

The U. S. reserve position in the IMF decreased $389 million in 1970, all of which decline took place in the last six months. The only U. S. drawing of foreign currencies from the IMF, amounting to $150 million, took place during the first half of the year.

The following table shows the U. S. reserve holdings by components at the end of 1970 and the changes over the course of the whole year (in millions of dollars).

	Dec. 31, 1970	Change in 1970
Gold	$11,072	$ -787
SDR	851	+851
Foreign Exchange	629	-2,152
Reserve Position in IMF	1,935	-389
Total	$14,487	$-2,477

1/ The allocation to the U. S. on January 1, 1970 amounted to $867 million. There was thus a net use during the year of $16 million.

The price of gold in the free-private gold market averaged considerably lower than in the preceding two years of the two-tier system and the range of fluctuation was less. In 1970 the average price was $35.96 per ounce with shifts from slightly below $35 during most of the first quarter of the year to slightly above $39 on two days in October. At year end the price was $37.37-1/2 in London.

South African gold sales to monetary authorities may be made from their new production when the market price is below $35 per ounce, and from their official reserves to the extent required to meet balance of payments needs. Also, limited sales of gold officially held at the inception of the two-tier system in 1968 could be made. Under these provisions, South Africa sold nearly $700 million to monetary authorities, primarily the IMF, during the entire year of 1970. New production of South African gold rose to over $1.1 billion in 1970, of which over $900 million was sold on the market.

Department of the TREASURY NEWS
HINGTON, D.C. 20220 TELEPHONE W04-2041 4 -

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.

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TABLE 1

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

January 1 - December 31, 1970

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

Area and Country	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	TOTAL
Europe					
Denmark	-	-	-2.0	-	-2.0
Greece	-	-0.3	-	-0.3	-0.6
Iceland	-0.1	-0.1	-0.1	-0.1	-0.3
Ireland	+2.2	-	-	-	+2.2
Malta	+2.5	-	-	-	+2.5
Netherlands	-	-	-20.0	-30.0	-50.0
Norway	-	-	-	-0.9	-0.9
Spain	-	-	+50.8	-	+50.8
Switzerland	-	-	-50.0	-	-50.0
Turkey	-0.3	-2.1	-5.5	+19.6	+11.8
Vatican City	-	+1.2	-	-	+1.2
Yugoslavia	-	-	-0.4	-0.3	-0.7
Total	+4.4	-1.3	-27.2	-11.9	-36.0
Latin America					
Argentina	-5.0	-	-	-	-5.0
Barbados	-	-	-	-2.0	-2.0
Bolivia	*	-	-	-	*
Chile	-0.8	-0.5	-0.2	-	-1.5
Colombia	-1.1	-0.1	-	-	-1.2
Dominican Republic	-0.1	-0.1	-0.1	-0.1	-0.4
El Salvador	-0.1	-0.1	-0.1	-0.1	-0.3
Guatemala	-0.1	-0.1	-0.1	-0.1	-0.4
Haiti	-	-0.1	-	*	-0.1
Nicaragua	-	-	*	*	*
Peru	-0.1	-0.2	-3.4	-0.1	-3.8
Uruguay	-0.1	-8.0	-	-	-8.1
Total	-7.3	-9.1	-3.9	-2.4	-22.8
Asia					
Afghanistan	-0.2	-0.2	-	-0.2	-0.5
Burma	-	*	+20.8	-0.1	+20.7
Ceylon	-	-	-0.4	-0.1	-0.5
China	-	-	-59.8	-	-59.8
Cyprus	-	-	*	-	*
Indonesia	-	-0.8	-0.9	-1.0	-2.6
Korea	*	-	-	*	*
Kuwait	+24.9	-	-	-	+24.9
Muscat	-	-	-1.1	-	-1.1
Nepal	-	-	-	+3.0	+3.0
Pakistan	-0.4	-	-	-	-0.4
Philippines	+1.2	-0.4	+2.7	-0.5	+3.0
Syria	*	*	*	*	-0.2
Yemen Arab Republic	-1.5	-	-	-	-1.5
Total	+24.0	-1.4	-38.7	+1.1	-15.0
Africa					
Cameroon	-	-0.2	-	-	-0.2
Central African Republic	-	-0.1	-	-	-0.1
Gabon	-	-0.1	-	-	-0.1
Ghana	-	-0.6	-0.2	-1.1	-1.9
Guinea	*	*	*	-	*
Liberia	-0.1	-	-	-0.1	-0.2
Morocco	-0.2	-	-	-	-0.2
Rwanda	-	-	*	-0.1	-0.1
Sierra Leone	-	*	*	-	*
Sudan	-0.4	-0.4	-0.4	-0.4	-1.6
Tunisia	*	-0.2	-0.2	-0.2	-0.6
United Arab Republic	-	-0.6	-2.7	-0.6	-3.9
Total	-0.7	-2.2	-3.5	-2.4	-8.9
IMF	+23.7	-	-321.7	-406.0	-704.0
TOTAL	+44.0	-14.0	-395.1	-421.7	-786.8

*Under $50,000.

Figures may not add to totals because of rounding.

TABLE 2

December 31, 1970

UNITED STATES MONETARY GOLD TRANSACTIONS WITH FOREIGN COUNTRIES MITIGATED BY EQUIVALENT SALES BY THE IMF TO THE U. S.
($ MILLIONS)

Area and Country	Fourth Quarter
Europe	
France	128.8
Greece	9.5
Iceland	2.0
Malta	1.5
Turkey	10.8
Yugoslavia	14.3
TOTAL	166.8
Latin America	
Argentina	22.5
Bolivia	2.0
Brazil	22.5
Chile	8.3
Costa Rica	1.8
Dominican Republic	2.8
El Salvador	2.5
Guyana	0.6
Haiti	0.1
Honduras	1.5
Mexico	25.0
Nicaragua	2.0
Panama	2.0
Paraguay	1.0
Peru	9.5
Trinidad and Tobago	4.8
TOTAL	108.7
Asia	
Burma	3.0
Ceylon	0.2
Cyprus	1.5
India	30.0
Indonesia	8.5
Israel	8.0
Japan	118.8
Kuwait	3.8
Laos	0.8
Pakistan	7.3
Philippines	7.2
Southern Yemen	1.8
Syria	3.0
Viet-Nam	5.8
Yemen Arab Republic	0.5
TOTAL	200.0
New Zealand	11.2
Africa	
Botswana	0.5
Burundi	0.4
Cameroon	4.0
Central African Republic	*
Chad	*
Congo Republic	0.3
Dohomey	0.7
Gabon	1.1
Gambia	0.1
Ghana	1.2
Guinea (Equatorial)	0.5
Guinea Republic	1.3
Ivory Coast	8.2
Kenya	4.0
Lesotho	*
Liberia	0.1
Libya	1.2
Malagasy	1.8
Malawi	0.9
Mali	0.1
Mauritania	0.1
Mauritius	1.5
Morocco	5.8
Niger	0.7
Nigeria	8.8
Rwanda	1.0
Senegal	0.7
Sierra Leone	2.5
Sudan	0.9
Tanzania	2.5
Togo	0.9
Uganda	2.0
Upper Volta	0.7
Zambia	6.5
TOTAL	61.2
TOTAL	547.8

*Under $50,000

Figures may not add to totals because of rounding.

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Department of the TREASURY NEWS

SHINGTON, D.C. 20220 TELEPHONE W04-2041

FOR RELEASE 6:30 p.m.,
Wednesday, March 31, 1971.

RESULTS OF OFFERING OF $2.2 BILLION STRIP OF WEEKLY BILLS

The Treasury Department announced that tenders for additional amounts of eleven series of Treasury bills to an aggregate amount of $2,200,000,000, or thereabouts, to be issued April 6, 1971, which were offered on March 16, 1971, were opened at the Federal Reserve Banks today. The amount of accepted tenders will be equally divided among the eleven issues of outstanding Treasury bills maturing July 8, July 15, July 22, July 29, August 5, August 12, August 19, August 26, September 2, September 9 and September 16, 1971. The details of the offering are as follows:

Total applied for - $5,080,185,000
Total accepted - $2,205,720,000 (includes $6,655,000 entered on a non-competitive basis and accepted in full at the average price shown below)

RANGE OF ACCEPTED COMPETITIVE BIDS:	Price	Approximate equivalent annual rate of discount based on 128 days (average number of days to maturity)
High	98.664	3.758
Low	98.630	3.853
Average	98.645	3.811 1/

43% of the amount bid for at the low price was accepted

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted
Boston	$ 38,500,000	$ 495,000
New York	4,028,640,000	1,929,235,000
Philadelphia	55,770,000	770,000
Cleveland	65,450,000	5,500,000
Richmond	22,330,000	11,330,000
Atlanta	17,050,000	3,850,000
Chicago	268,070,000	79,035,000
St. Louis	14,740,000	5,445,000
Minneapolis	5,830,000	330,000
Kansas City	6,215,000	990,000
Dallas	82,940,000	
San Francisco	474,650,000	168,740,000
TOTALS	$5,080,185,000	$2,205,720,000

1/ This rate is on a bank discount basis. The equivalent coupon issue yield is 3.93%.

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Press Releases

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DATE LOANED	BORROWER'S NAME	PHONE NUMBER
7/1/[illegible]	~~[illegible]~~	2176
4/21/75	Saunders	5506