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TREASURY DEPARTMENT

The Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE W04-2041

For Immediate Release January 3, 1972

FREDERIC W. HICKMAN NAMED

DEPUTY ASSISTANT SECRETARY OF TREASURY FOR TAX POLICY

Secretary of the Treasury John B. Connally today announced the appointment of Frederic W. Hickman, a Chicago, Ill. tax attorney, as Deputy Assistant Secretary of the Treasury for Tax Policy.

Mr. Hickman will serve as deputy to Assistant Secretary Edwin S. Cohen. He replaces John S. Nolan of Washington, D.C., who has resigned.

Mr. Hickman, 44, was a law partner in the firm of Hopkins, Sutter, Owen, Mulroy & Davis, and has been engaged in the private practice of law for twenty years. A graduate of Harvard College and Harvard Law School, he received his A.B. degree cum laude in 1948, and his LL.B. degree magna cum laude in 1951. Mr. Hickman was one of the principal authors of the new Illinois state income tax law adopted in 1969. He is a member of the Section of Taxation of the American Bar Association, and also holds membership in the Illinois and Chicago Bar Associations.

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His professional and business affiliations include memberships in the Law Club of Chicago, the Legal Club of Chicago, the Harvard Club of Chicago, the Cliff Dwellers, and the Union League Club of Chicago.

Mr. and Mrs. Hickman, the former Katherine Heald of River Forest, Ill., have two daughters, Mary Elizabeth (6) and Sara (4). Mr. Hickman is a native of Sioux City, Iowa.

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The Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE WO4-2041

ATTENTION: FINANCIAL EDITOR

FOR RELEASE 6:30 P.M.,

Monday, January 3, 1972.

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 October 7, 1971 , and the other series to be dated January 6, 1972 , which were offered on December 28, 1971 were opened at the Federal Reserve Banks today. Tenders were invited for $2,300,000,000, 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 April 6, 1972		182-day Treasury bills maturing July 6, 1972	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv. Annual Rate
High	99.067 a/	3.691%	97.978	4.000%
Low	99.046	3.774%	97.935	4.085%
Average	99.056	3.735% 1/	97.956	4.043% 1/

a/ Excepting 1 tender of $500,000
16% of the amount of 91-day bills bid for at the low price was accepted
67% 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	$ 18,265,000	$ 8,265,000	$ 13,695,000	$ 3,695,000
New York	3,036,675,000	1,911,075,000	2,209,690,000	1,400,840,000
Philadelphia	11,705,000	11,705,000	4,510,000	4,510,000
Cleveland	27,565,000	27,565,000	18,360,000	13,360,000
Richmond	12,360,000	12,360,000	2,600,000	2,600,000
Atlanta	34,490,000	24,810,000	20,535,000	8,535,000
Chicago	213,260,000	109,060,000	136,825,000	57,825,000
St. Louis	52,525,000	47,025,000	20,480,000	15,980,000
Minneapolis	30,370,000	19,370,000	25,115,000	15,125,000
Kansas City	37,075,000	30,075,000	19,335,000	13,335,000
Dallas	36,160,000	16,320,000	29,765,000	7,765,000
San Francisco	108,870,000	82,570,000	273,140,000	56,730,000
TOTALS	$3,619,320,000	$2,300,200,000 b/	$2,774,050,000	$1,600,300,000 c/

b/ Includes $ 204,345,000 noncompetitive tenders accepted at the average price of 99.056
c/ Includes $ 87,975,000 noncompetitive tenders accepted at the average price of 97.956
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 3.83 % for the 91-day bills, and 4.20% for the 182-day bills.

The Department of the TREASURY

WASHINGTON, D.C. 20220 TELEPHONE W04-2041

NEWS

FOR IMMEDIATE RELEASE January 4, 1972

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 $3,900,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing January 13, 1972, in the amount of $3,902,405,000, as follows:

91-day bills (to maturity date) to be issued January 13, 1972 in the amount of $2,300,000,000, or thereabouts, representing an additional amount of bills dated October 14,1971, and to mature April 13, 1972 (CUSIP No. 912793 MW3) originally issued in the amount of $1,601,210,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,600,000,000, or thereabouts, to be dated January 13,1972, and to mature July 13, 1972 (CUSIP No. 912793 NU6).

The bills of both series will be issued on a discount basis under competitive and noncompetetive 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, January 10, 1972. 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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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 January 13, 1972, in cash or other immediately available funds or in a like face amount of Treasury bills maturing January 13, 1972. 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.

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The Department of the TREASURY

WASHINGTON, D.C. 20220 TELEPHONE WO4-2041

NEWS

FOR IMMEDIATE RELEASE JANUARY 7, 1972

INDUSTRIAL PAYROLL SAVINGS COMMITTEE MEETS JANUARY 13 WITH TREASURY SECRETARY JOHN B. CONNALLY

The U. S. Industrial Payroll Savings Committee, comprising leading executives of American business and industry, meets in Washington on January 13 with Secretary of the Treasury John B. Connally and other top Treasury officials, to recognize contributions of the Committee in topping its 1971 campaign goal by 14 percent and to plan the 1972 program.

Donald J. MacNaughton, Chairman and Chief Executive Officer, The Prudential Insurance Co. of America, Newark, N.J., is to be installed as 1972 Committee Chairman. He succeeds B. R. Dorsey, President, Gulf Oil Corp., Pittsburgh, Pa.

Members of the 1971 Committee -- working in various industrial and geographic sectors of the nation -- achieved 114 percent of the year's goals by enrolling 2,509,968 employees as new Payroll Savers or as regular savers increasing their allotments. Within Committee member companies, 808,749 new savers or increased allotments helped swell the totals. The Committee was responsible for securing $3.85 billion worth of Bond purchases.

Paul A. Volcker, Under Secretary of the Treasury for Monetary Affairs, opens the Committee meeting in the Department of State Diplomatic Functions Suite. Mr. Dorsey is to preside. A reception is scheduled for 11:45 with luncheon at 12:30.

In addition to Secretary Connally, speakers include Jesse L. Adams, Acting National Director of the Treasury's U. S. Savings Bonds Division and Mr. MacNaughton.

Lists of 1971 and 1972 Committee members are attached.

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Attachments

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U. S. INDUSTRIAL PAYROLL SAVINGS COMMITTEE
1971 MEMBERS

Ex Officio General Chairman
Honorable John B. Connally
Secretary of the Treasury

1971 Chairman
B. R. Dorsey
President
Gulf Oil Corp.
Pittsburgh, Pa.

1963-1970 Chairmen
Gordon M. Metcalf
Chairman of the Board
Sears, Roebuck and Co.
Chicago, Ill.
(1970 Chairman)

James M. Roche
Past Chairman of the Board
General Motors Corp.
Detroit Mich.
(1969 Chairman)

William P. Gwinn
Chairman
United Aircraft Corp.
East Hartford, Conn.
(1968 Chairman)

Daniel J. Haughton
Chairman of the Board
Lockheed Aircraft Corp.
Burbank, Cal.
(1967 Chairman)

Lynn A. Townsend
Chairman of the Board
Chrysler Corp.
Detroit, Mich.
(1966 Chairman)

Dr. Elmer W. Engstrom
Past President and Chief
Executive Officer
RCA Corp.
New York, N.Y.
(1965 Chairman)

Frank R. Milliken
President
Kennecott Copper Corp.
New York, N.Y.
(1964 Chairman)

Harold S. Geneen
Chairman and President
International Telephone and
Telegraph Corp.
New York, N.Y.
(1963 Chairman)

Geographic Members
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Western Maryland Railway Co.
Baltimore, Md.
(BALTIMORE)

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Chief Executive Officer
John Hancock Mutual Life Insurance
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(BOSTON)

Gerald C. Saltarelli
Chairman and President
Houdaille Industries, Inc.
Buffalo, N.Y.
(BUFFALO)

Robert S. Ingersoll
Chairman
Borg-Warner Corp.
Chicago, Ill.
(CHICAGO)

Francis L. Dale
President and Publisher
Cincinnati Enquirer, Inc.
Cincinnati, Ohio
(CINCINNATI)

William H. Wilson
Past President and Chief
Executive Officer
Addressograph Multigraph Corp.
Cleveland, Ohio
(CLEVELAND)

William H. Seay
President
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Dallas, Tex.
(DALLAS)

Robert K. Timothy
President
Mountain Bell
Denver, Colo.
(DENVER)

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(DETROIT)

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(HARTFORD)

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Houston, Tex.
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Milwaukee, Wis.
(MILWAUKEE)

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Officer
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(NEW JERSEY)

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New Orleans, La.
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New Orleans, La.
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Chairman
Burlington Industries, Inc.
Greensboro, N.C.
(TEXTILES)

U. S. INDUSTRIAL PAYROLL SAVINGS COMMITTEE
1972 MEMBERS

Ex Officio General Chairman
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Secretary of the Treasury

1972 Chairman
Donald S. MacNaughton
Chairman and Chief Executive Officer
The Prudential Insurance Co. of America
Newark, N.J.

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Chicago, Ill.
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(1968 Chairman)

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(1964 Chairman)

Harold S. Geneen
Chairman and President
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New York, N.Y.
(1963 Chairman)

Geographic Members
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Baltimore, Md.
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Boston, Mass.
(BOSTON)

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Chicago, Ill.
(CHICAGO)

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President and Publisher
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Cincinnati, Ohio
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Cleveland, Ohio
(CLEVELAND)

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(DALLAS)

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(DENVER)

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Oscar Mayer and Co.
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Toledo, Ohio
(GLASS MANUFACTURING)

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Ford Motor Co.
Dearborn, Mich.
(AUTOMOTIVE)

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President
First National City Bank
New York, N.Y.
(BANKING)

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and Co., Inc.
Wilmington, Del.
(CHEMICALS)

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(ELECTRICAL EQUIPMENT)

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Chairman of the Board
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(ELECTRONICS)

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Toledo, Ohio
(GLASS MANUFACTURING)

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(INSURANCE)

Henry H. Henley, Jr.
President
Cluett, Peabody and Co., Inc.
New York, N.Y.
(MEN'S APPAREL)

Leo Jaffe
President
Columbia Pictures Industries, Inc
New York, N.Y.
(MOTION PICTURES)

C. Jay Parkinson
Past Chairman
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New York, N.Y.
(NON-FERROUS METALS)

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Armonk, N.Y.
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New York, N.Y.
(PAPER)

R. O. Andersen
Chairman of the Board
Atlantic Richfield Co.
New York, N.Y.
(PETROLEUM)

A. H. Aymond
Chairman and Chief
Executive Officer
Consumers Power Co.
Jackson, Mich.
(PUBLIC UTILITIES)

Hays T. Watkins, Jr.
President and Chief
Executive Officer
The Chesapeake and Ohio Railway Co.
The Baltimore and Ohio Railroad Co.
Cleveland, Ohio
(RAILROADS)

Robert F. Longacre
President
The Great Atlantic and
Pacific Tea Co., Inc.
New York, N.Y.
(RETAIL FOODS)

William M. Batten
Chairman of the Board
The Goodyear Tire and
Rubber Co.
Akron, Ohio
(RUBBER)

The Honorable Linwood Holton
Governor
Commonwealth of Virginia
Richmond, Va.
(STATE GOVERNMENTS)

William R. Roesch
Chairman and President
Jones and Laughlin Steel Corp.
Pittsburgh, Pa.
(STEEL)

Robert D. Lilley
Executive Vice President
American Telephone and Telegraph Co.
New York, N.Y.
(TELECOMMUNICATIONS)

Charles F. Myers, Jr. Chairman
Chairman
Burlington Industries, Inc.
Greensboro, N.C.
(TEXTILES)

The Department of the TREASURY
'ASHINGTON, D.C. 20220 TELEPHONE W04-2041
NEWS

FOR IMMEDIATE RELEASE January 10, 1972

TREASURY ANNOUNCES PERMISSIBLE METHODS
OF ACCOUNTING FOR JOB DEVELOPMENT INVESTMENT CREDIT

The Revenue Act of 1971 provides that in financial reports subject to the jurisdiction of any Federal agency issued after December 9, 1971, a taxpayer who claims the investment credit need not use a particular method of accounting for the credit. However, the taxpayer is required to disclose the method of accounting used, and may not change the method adopted without the consent of the Secretary of the Treasury or his delegate.

These provisions do not apply to reports of public utilities for which special rules are provided under the Act.

On December 21, 1971, Treasury announced that December 10, 1971 -- the date President Nixon signed the Act -- is the effective date of the consistency in accounting requirement provided by the Act. The Treasury has been asked to amplify that announcement.

In answer to these requests, Treasury said today that the permissible methods of accounting referred to by the Act are the "flow-through method" and the "deferral method." In the flow-through method, the amount of the investment credit for the year is reflected as a reduction of tax liability for that year. In the deferral method, the amount of the credit is reflected as a reduction of tax liability ratably over the period during which the asset is depreciated on the books of the business.

In financial statements issued after December 9, 1971, a taxpayer is limited to the use of one of these two methods of accounting for any investment credit allowable for a taxable year ending after December 9, 1971.

The Revenue Act provisions do not apply, however, to any investment credit allowable for a taxable year ending before December 10, 1971. For example, a credit allowable for a taxable year ending before December 10, 1971, which was accounted for under the deferral method in a report to a federal agency, remains subject to any reporting requirements of the agency, even though the taxpayer elects to use the flow-through method for credits allowable in taxable years ending after December 9, 1971.

Treasury also said that for purposes of these requirements of the Revenue Act, an investment credit carryover or carryback is allowable in the taxable year in which it reduces tax liability and not in the year in which the credit arises.

Once a taxpayer uses a particular method of accounting for a credit allowable for a taxable year ending after December 9, 1971, he must continue to use that method unless he obtains the consent of the Secretary of the Treasury to a change. Treasury said that it plans to authorize a change only where a taxpayer can demonstrate clearly that a different method of accounting is justified.

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The Department of the TREASURY
ASHINGTON D.C. 20220 TELEPHONE W04-2041

NEWS

FOR IMMEDIATE RELEASE January 10, 1972

The Treasury Department today announced that Treasury Assistant Secretary for International Affairs John R. Petty will head a small U.S. delegation to a committee meeting of the Governors of the Inter-American Development Bank scheduled for January 24-25 in Brasilia, the capital of Brazil.

This meeting is to carry forward the discussions which have taken place during the last 18 months to develop a closer association between the Bank and developed countries outside Latin America.

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The Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE W04-2041

ATTENTION: FINANCIAL EDITOR

RELEASE 6:30 P.M., January 10, 1972

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 October 14, 1971 , and the other series to be dated January 13, 1972 , which were offered on January 4, 1972, were opened at the Federal Reserve Banks today. Tenders were invited for $2,300,000,000, 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 April 13, 1972		:	182-day Treasury bills maturing July 13, 1972	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	99.237	3.018%	:	98.322	3.319%
Low	99.196	3.181%	:	98.273	3.416%
Average	99.214	3.109% 1/	:	98.294	3.375% 1/

15% 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

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	:	Applied For	Accepted
Boston	$ 19,600,000	$ 9,600,000	:	$ 24,835,000	$ 14,835,000
New York	2,758,125,000	1,836,125,000	:	2,366,845,000	1,342,545,000
Philadelphia	15,880,000	15,880,000	:	12,585,000	7,785,000
Cleveland	28,375,000	28,375,000	:	14,105,000	12,705,000
Richmond	14,495,000	14,495,000	:	1,945,000	1,945,000
Atlanta	46,255,000	46,255,000	:	34,745,000	17,490,000
Chicago	194,620,000	110,620,000	:	178,180,000	54,180,000
St. Louis	45,675,000	40,675,000	:	22,720,000	16,720,000
Minneapolis	32,660,000	32,660,000	:	34,955,000	30,955,000
Kansas City	31,800,000	28,950,000	:	14,710,000	9,610,000
Dallas	37,660,000	24,660,000	:	33,025,000	13,025,000
San Francisco	131,400,000	112,150,000	:	123,380,000	78,230,000
TOTALS	$3,356,545,000	$2,300,445,000 a/		$2,862,030,000	$1,600,025,000 b/

a/ Includes $ 216,260,000 noncompetitive tenders accepted at the average price of 99.214
b/ Includes $ 104,600,000 noncompetitive tenders accepted at the average price of 98.294
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 3.19 % for the 91-day bills, and 3.49% for the 182-day bills.

UNITED STATES SAVINGS BONDS ISSUED AND REDEEMED THROUGH December 31, 1971

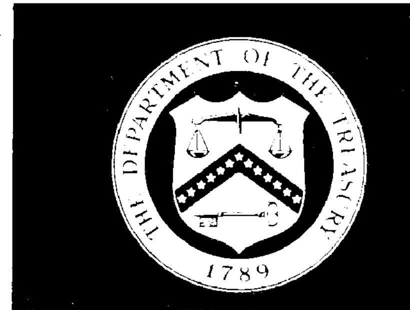
(Dollar amounts in millions – rounded and will not necessarily add to totals)

DESCRIPTION	AMOUNT ISSUED 1/	AMOUNT REDEEMED 1/	AMOUNT OUTSTANDING 2/	% OUTSTANDING OF AMOUNT ISSUED
TURED				
Series A-1935 thru D-1941	5,003	4,998	5	.10
Series F and G-1941 thru 1952	29,521	29,494	27	.09
Series J and K-1952 thru 1957	3,754	3,743	11	.29
MATURED				
Series E 3/				
1941	1,909	1,713	196	10.27
1942	8,414	7,552	862	10.24
1943	13,529	12,176	1,353	10.00
1944	15,790	14,133	1,657	10.49
1945	12,428	10,969	1,459	11.74
1946	5,655	4,831	825	14.59
1947	5,381	4,459	923	17.15
1948	5,575	4,540	1,035	18.57
1949	5,524	4,422	1,102	19.95
1950	4,841	3,824	1,016	20.99
1951	4,188	3,306	882	21.06
1952	4,382	3,439	943	21.52
1953	5,014	3,856	1,158	23.10
1954	5,113	3,873	1,240	24.25
1955	5,329	3,993	1,336	25.07
1956	5,152	3,825	1,326	25.74
1957	4,857	3,554	1,302	26.81
1958	4,747	3,373	1,374	28.94
1959	4,452	3,122	1,331	29.90
1960	4,473	3,037	1,436	32.10
1961	4,551	2,956	1,595	35.05
1962	4,415	2,777	1,637	37.08
1963	4,946	2,908	2,039	41.23
1964	4,813	2,821	1,992	41.39
1965	4,693	2,751	1,943	41.40
1966	5,061	2,828	2,233	44.12
1967	5,012	2,770	2,242	44.73
1968	4,757	2,538	2,218	46.63
1969	4,466	2,229	2,237	50.09
1970	4,661	1,897	2,764	59.30
1971	4,404	942	3,462	78.61
Unclassified	315	325	-10	-
Total Series E	178,844	131,736	47,108	26.34
Series H (1952 thru May, 1959) 3/	5,485	3,836	1,649	30.06
H (June, 1959 thru 1971)	8,125	2,608	5,517	67.90
Total Series H	13,610	6,443	7,167	52.66
Total Series E and H	192,454	138,179	54,275	28.20
All Series: Total matured	38,277	38,235	42	00.11
All Series: Total unmatured	192,454	138,179	54,275	28.20
All Series: Grand Total	230,732	176,415	54,317	23.54

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

Form PD 3812 (Rev. Mar. 1971) – Dept. of the Treasury – Bureau of the Public Debt

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



FOR IMMEDIATE RELEASE January 11, 1972

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 $3,900,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing January 20, 1972, in the amount of $3,901,685,000, as follows:

91-day bills (to maturity date) to be issued January 20, 1972 in the amount of $2,300,000,000, or thereabouts, representing an additional amount of bills dated October 21,1971, and to mature April 20, 1972 (CUSIP No. 912793 MXI) ,originally issued in the amount of $ 1,600,575,000, the additional and original bills to be freely interchangeable.

182- day bills, for $1,600,000,000, or thereabouts, to be dated January 20, 1972, and to mature July 20, 1972 (CUSIP No. 912793 NV4).

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, January 17, 1972. Tenders will not be received at the Treasury Department, Washington. Each tender must be for a minimum of $10,000. Tenders over $10,000 must be in multiples of $5,000. In the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e.g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

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

submit tenders except for their own account. Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of Treasury bills applied for, unless the tenders are 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 announcemen 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 January 20, 1972, in cash or other immediately available funds or in a like face amount Treasury bills maturing January 20, 1972. 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 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 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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The Department of the TREASURY NEWS

SHINGTON, D.C. 20220 TELEPHONE W04-2041

IMMEDIATE RELEASE

STATEMENT OF EUGENE T. ROSSIDES
ASSISTANT SECRETARY OF THE TREASURY
(ENFORCEMENT, TARIFF AND TRADE AFFAIRS, AND OPERATIONS)
AT A NEWS BRIEFING ON TREASURY'S
IRS NARCOTICS TRAFFICKER PROGRAM

ROOM 4121 MAIN TREASURY BUILDING
January 12, 1972 11:00 A.M.

TAKING THE PROFITS OUT OF THE ILLEGAL DRUG TRAFFIC

I am pleased to report on the results of the first six months of a new Presidential anti-narcotics effort--Treasury's IRS Narcotics Trafficker Program.

In the initial six-month period (July 1 - December 31, 1971), we have achieved the following:

1. 328 targets in 26 states, 37 cities, and the District of Columbia were selected by Treasury's Target Selection Committee and referred to the Internal Revenue Service. Under the direction of IRS Commissioner Johnnie Walters, 273 Treasury Agents are presently conducting intensive tax investigations (see attached Table No. 1);

2. $17½ million in taxes and penalties have been assessed under the program, of which more than $638,000 has already been collected in the form of cash or valued property;

3. One man has been convicted in St. Louis and sentenced to imprisonment for five years and fined $3,000 for violation of the Internal Revenue Code; and

4. Five other criminal tax cases are pending in Federal District Courts in New York, Miami and Detroit (see attached Table No. 2).

We believe this represents a substantial achievement. And we have only just begun. It confirms our prediction to the Appropriations Committees in the Congress that this program "will make a major additional contribution to the President's offensive against drug abuse."

Institutionalized Nationwide Tax Investigative Program

Treasury's IRS Narcotics Trafficker Program has been institutionalized on a nationwide and permanent basis. In each area of the country, cadres of Treasury Agents have been established to concentrate full time on tax investigations of major narcotics figures. The word for the drug traffickers is "get out of the illegal drug traffic or face up to intensive tax investigations."

Target Selection

At Treasury, the program is under the direction of Martin R. Pollner, Director, Office of Law Enforcement, who is also the Chairman of the Target Selection Committee. Members of the Committee are drawn from the Treasury Department, Bureau of Customs, Intelligence and Audit Divisions of IRS, and the Bureau of Narcotics and Dangerous Drugs. Potential targets are selected based on information received from various Federal, State, and local enforcement agencies. Once selected, the names are transmitted to the IRS for investigation. Before a suspect is identified as a target, the Committee requires substantial information that the subject is involved in middle and upper echelon narcotics trafficking, smuggling, or financing.

Cooperation with State and Local Enforcement Agencies

The over 350,000 men and women in the State and local law enforcement community are the first line of defense internally against the drug traffickers. We have initiated a program to bring these officers into a cooperative effort with us by: (1) writing to the chiefs of police in 755 cities having a population in excess of 25,000; and (2) contacting key enforcement officials in major states. We have asked that they furnish us with the names of the middle and upper echelon drug traffickers in their states and cities and with intelligence information on these individuals.

Computers

Computers will facilitate the year in, year out scrutiny of the finances of each of the drug traffickers. By computerizing our information each year, we will be able systematically and quickly to examine each trafficker targeted under the program.

Targets by the End of FY 1972

Initially, our projection was 400 targets by June 30, 1972, the end of FY 1972. From our experience these past six months, we should easily surpass that goal. We are reviewing our projection.

Background

Secretary John B. Connally, in the spring, recommended to the President this nationwide program.

President Nixon announced the program of tax investigations of major narcotics traffickers on June 17, 1971, as part of a message on his multi-dimensional approach to combat drug abuse.

The program is designed to take the profit out of the illegal traffic in narcotics and thereby further disrupt the traffic. This is to be accomplished by conducting systematic tax investigations of middle and upper echelon narcotics traffickers, smugglers, and financiers. These are the people who are generally insulated from the daily operations of the drug traffic through intermediaries.

Reflecting the high priority given this program by the President, Congress provided financial support for it amounting to $7.5 million in Fiscal 1972 and authorization for 541 additional positions in IRS--200 Treasury Intelligence Agents, 200 Treasury Revenue Agents, and 141 support personnel.

Treasury has coordinated its efforts with the anti-smuggling drive of the Bureau of Customs, the drive against narcotics distribution of the Bureau of Narcotics and Dangerous Drugs, and the prosecution efforts of the Tax and Criminal Divisions of the Department of Justice. We are also actively seeking the maximum cooperation of State and local enforcement agencies as well. This is a vital feature of this program.

New procedures and techniques have been established and older ones have been streamlined, in order to reduce the time required for completion of successful financial investigations, and to bring the cases to court more expeditiously.

This program is a major enforcement effort but it must be emphasized that it is only one part of this Administration's comprehensive drive against narcotics.

President Nixon's War on Drug Abuse

President Nixon started his war on drugs the first month of his Administration when he established the Interdepartmental Task Force on Narcotics, Marijuana and Dangerous Drugs that led to Operation Intercept in September, 1969, and Operation Cooperation in October, 1969. He has escalated that war with a series of action programs, and progress has been made.

First, he elevated the drug problem to the foreign policy level and has taken personal initiatives in soliciting the cooperation of other governments. More has been done by the international community to attack drug abuse in the past three years than in the previous twenty-five years.

Second, he placed particular emphasis on the crucial roles of education, research, and rehabilitation and provided increased funds in these three essential areas even before the recommendations in his June 17, 1971, message.

Third, he recommended flexible provisions for handling first offenders; and differentiation in the criminal penalty structure between heroin and marijuana.

Fourth, he stressed total community involvement--the private sector as well as governmental agencies--in this anti-drug abuse drive.

Fifth, he provided a substantial increase in budgetary support for Federal law enforcement in this area.

Sixth, he recognized the central role of the states and the need for close Federal-state cooperation in a unified drive against drug abuse.

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TABLE 1

BREAKDOWN OF TARGETS BY AREA

TE	CITIES	SELECTED TARGETS
zona	Phoenix, Tucson	9
ifornia	Los Angeles, San Diego	22
	San Francisco	20
orado	Denver	2
necticut	Hartford	3
trict of Columbia		5
rida	Miami	46
rgia	Atlanta	10
aii	Honolulu	4
nois	Chicago	12
ana	Indianapolis, Ft. Wayne	4
sana	New Orleans	5
land	Baltimore	1
achusetts	Boston	6
igan	Detroit	27
ouri	St. Louis	4
Jersey	Newark	18
Mexico	Albuquerque	7
York	Albany	2
	Buffalo	5
	New York	72
h Carolina	Greensboro	1
	Cleveland	3
sylvania	Philadelphia	7
	Pittsburgh	4
h Carolina	Columbia	1
essee	Nashville	1
	Chattanooga	1
s	Houston, Austin	17
	Dallas	1
ont	Burlington	2
inia	Richmond	1
ington	Seattle	5
		328

asury Department
fice of Law Enforcement

January 12, 1972

TABLE 2

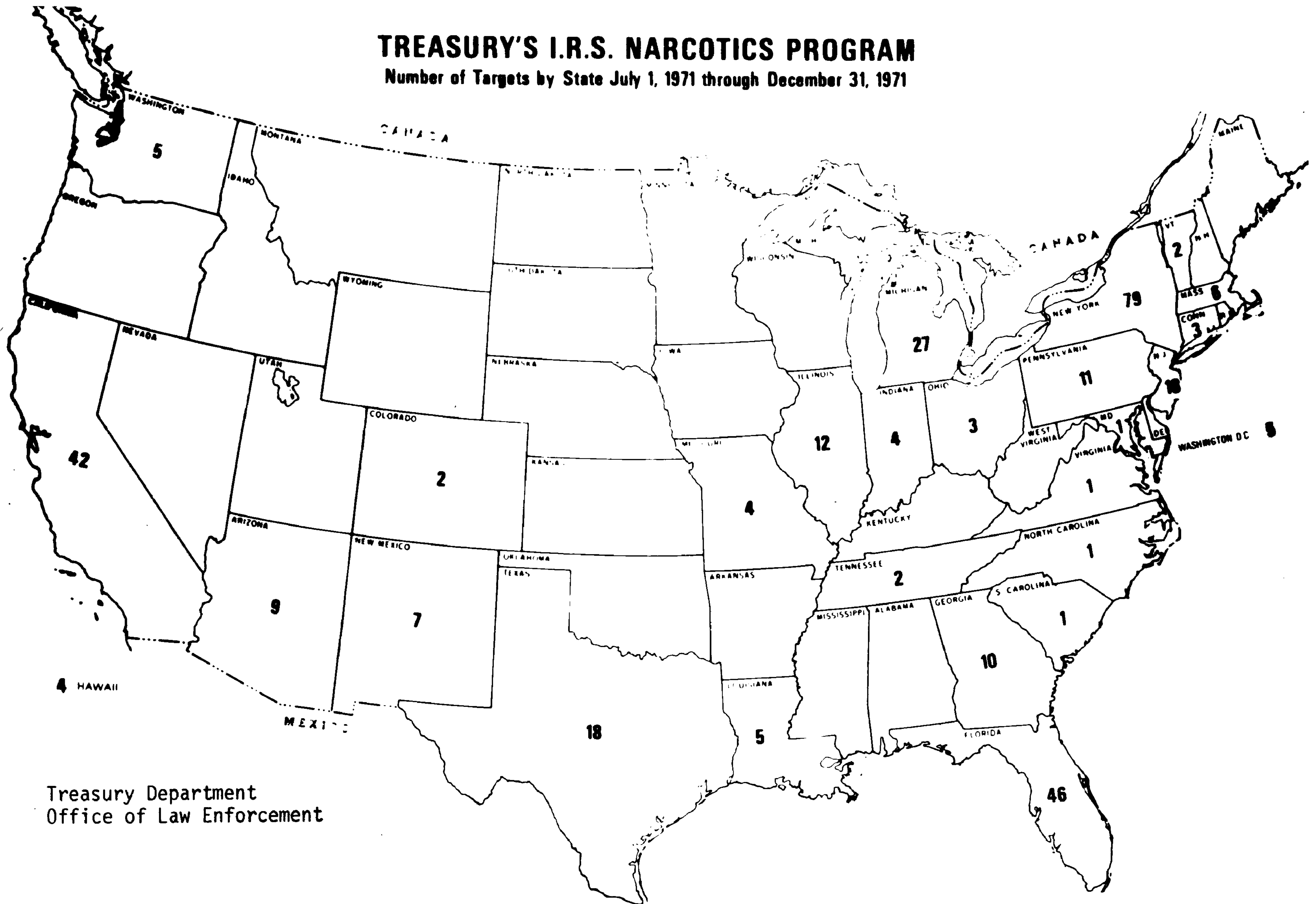
Cases pending indictment	4
Cases pending in U.S. Courts (under indictment)	5
Jeopardy Assessments[1]	$13,490,000
Tax Year Terminations[2]	2,709,000
Tax Determinations Pending Assessment	1,286,000
Total Assessments and Proposed Assessment	$17,485,000
Dollars Collected to Date	$483,800
Property Seized (Fair Market Value)	154,750
Total Collected or Seized	$638,550

Targets Sentenced:

Number	Sentence	Fine
1	5 years	3,000

[1] Jeopardy assessments are additional assessments of taxes made where a return has been filed, but where circumstances exist under which delay might jeopardize collection of the revenue.

[2] Termination of tax year is a computation of the tax due and assessment made where the time for filing the return has not become due where circumstances exist under which delay might jeopardize collection of the revenue.


TREASURY'S I.R.S. NARCOTICS PROGRAM
Number of Targets by State July 1, 1971 through December 31, 1971
CANADA
WASHINGTON
5
MONTANA
IDAHO
OREGON
CALIFORNIA
42
NEVADA
UTAH
WYOMING
COLORADO
2
ARIZONA
9
NEW MEXICO
7
NEBRASKA
OKLAHOMA
TEXAS
18
ARKANSAS
5
4
WISCONSIN
ILLINOIS
12
MICHIGAN
27
INDIANA
4
OHIO
3
KENTUCKY
TENNESSEE
2
MISSISSIPPI
ALABAMA
GEORGIA
10
S CAROLINA
1
FLORIDA
46
NORTH CAROLINA
1
VIRGINIA
1
WEST VIRGINIA
MD
1
DEL
WASHINGTON DC
5
PENNSYLVANIA
11
NJ
10
NEW YORK
79
VT
2
NH
MAINE
MASS
6
CONN
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4 HAWAII
Treasury Department
Office of Law Enforcement

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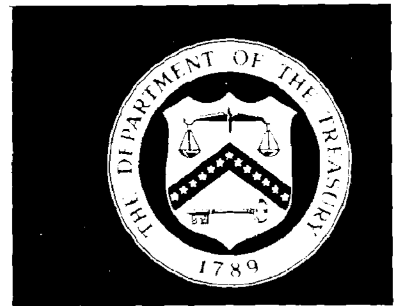

FOR IMMEDIATE RELEASE JANUARY 13, 1972

TOP BUSINESS LEADERS GATHER
FOR U. S. INDUSTRIAL PAYROLL SAVINGS COMMITTEE MEETING

The U. S. Industrial Payroll Savings Committee met today, in annual session, with Treasury Secretary John B. Connally, in the Diplomatic Functions Suite of the State Department.

Purpose of the meeting was to report on Committee success in exceeding its 1971 goal; to name its new Chairman for the 1972 campaign year; to plan program action aimed at signing up 2.3 million new Payroll Savers or those who increase their allotments.

Donald S. MacNaughton, Chairman and Chief Executive Officer, The Prudential Insurance Company of America, Newark, is new Chairman of the 60-member 1972 Committee, which includes representatives of 26 major industries and 24 geographic areas.

He succeeds B. R. Dorsey, President, Gulf Oil Corp., Pittsburgh, who led the 1971 Committee to a banner year with $3.85 billion in Savings Bonds sold to working Americans across the country. Dorsey stated that -- "these same Americans will benefit from our work in terms of their individual financial security and growth, and in terms of a sounder American economy." He reported that, during 1971, his Committee signed up more than 2.5 million new or increased-amount savers, against a goal of 2.2 million.

For 29 members of the Committee it was their first session together. They were installed in official ceremonies, receiving Certificates of Appointment signed by the Secretary of the Treasury.

Also, Secretary Connally presented special awards to outgoing Chairman Dorsey and to members of his 1971 Committee -- the Treasury Gold Medal of Merit to the Chairman; Silver Medals of Merit to Committee members. Past Chairmen received the new Presidential Medallion Award.

(MORE)

Secretary Connally's Citation to Mr. Dorsey read, in part, "under his leadership and inspired by his example, American industry enrolled 2,500,000 savers, far exceeding its goal for 1971, and raised sales of Series E Bonds through the Payroll Savings Plan to a new record. This contribution to the security of both individuals and the nation is an impressive result of his efforts. His dedicated service is in the finest tradition of the volunteer spirit which characterizes the Savings Bonds Program and gives strength and vitality to the American way of life."

Past Chairmen of the Committee are as follows -- 1963, Harold S. Geneen, Chairman and President, International Telephone and Telegraph Corp.; 1964, Frank R. Milliken, President, Kennecott Copper Corp.; 1965, Dr. Elmer W. Engstrom, Past President and Chief Executive Officer, RCA Corp.; 1966, Lynn A. Townsend, Chairman of the Board, Chrysler Corp.; 1967, Daniel J. Haughton, Chairman of the Board, Lockheed Aircraft Corp.; 1968, William P. Gwinn, Chairman, United Aircraft Corp.; 1969, James M. Roche, Past Chairman of the Board, General Motors Corp.; and 1970, Gordon M. Metcalf, Chairman of the Board, Sears, Roebuck, and Co.

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the Department of the TREASURY NEWS

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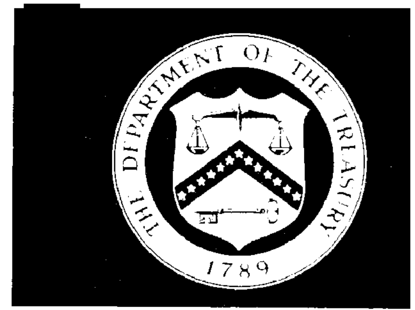

FOR RELEASE UPON DELIVERY

REMARKS BY THE HONORABLE JOHN B. CONNALLY
SECRETARY OF THE TREASURY
BEFORE
ANNUAL MEETING OF THE U. S. INDUSTRIAL
PAYROLL SAVINGS COMMITTEE
DIPLOMATIC FUNCTIONS SUITE
DEPARTMENT OF STATE
THURSDAY, JANUARY 13,1972, 1:30 P. M.

Thank you, Chairman Dorsey.

I am delighted to be with you today, Bob, to offer my thanks -- along with those of our Treasury family -- to you and the members of the U. S. Industrial Payroll Savings Committee for your outstanding leadership in spearheading our 1971 Savings Bonds campaign.

The year 1971 was a great year for Savings Bonds. Sales rose by 17 percent, while redemptions declined by the same percentage. The value of Savings Bonds and Freedom Shares outstanding -- held by tens of millions of Americans -- climbed to an unprecedented $54.9 billion.

Much of the credit for this dramatic change in the posture of the Savings Bonds Program belongs to those of you gathered here today. The Treasury and the Nation are deeply grateful for

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your dedicated efforts. We are equally appreciative of the continuing contributions of the Advertising Council, represented by its Savings Bonds Coordinator, James S. Fish; the all-important support of the media, led by our National Committee of Newspaper Publishers, under the Chairmanship of Charles L. Gould, Publisher of the "San Francisco Examiner"; the banking community, sparked by Douglas R. Smith, Chairman of the American Bankers Association Savings Bonds Committee; our State Chairmen, represented today by Bland W. Worley, National Chairman of Volunteer State Committees, and, of course, organized labor, the public relations profession, and other fields too numerous to mention.

Clearly, 1971 is going to be a tough year to top, but the 1972 Committee, under the Chairmanship of Donald S. MacNaughton, Chairman and Chief Executive Officer, The Prudential Insurance Company of America, has accepted the challenge. We are confident that it, too -- spurred on by the momentum of the 1971 Campaign -- will be eminently successful.

I know that all of us here today have greatly enjoyed this memorable reception and luncheon in these historic surroundings, Bob, and I should like to thank you for being such a genial and gracious host.

And now, if all the members of your 1971 Committee will stand, I should like to present to each the Treasury's Silver Medal of Merit. Thank you. Gentlemen, as you receive your medals from members of our staff, I should like to read the companion letter -- which differs slightly as to your assignments --

"Dear Mr. MacNaughton --

"In reviewing the factors which influence our economy, I am impressed with the stabilizing effect of U. S. Savings Bonds and with the contribution you and other members of the U. S. Industrial Payroll Savings Committee made to the success of the 1971 Savings Bonds Campaign.

"The enrollment of Payroll Savers far exceeded the Committee's goal of 2,200,000. The sale of small denomination E Bonds were nearly $3,850,000 and the greatest since 1945.

"You played a significant part in these remarkable achievements as the Chairman for New Jersey. Your efforts benefited the Nation and the individual citizen. It is with special pleasure that I present to you the attached Medal of Merit. Please accept it as a symbol of your Government's appreciation."

The letter carries my signature as Secretary of the Treasury.

This year we have a new award for the Past Chairman of this Committee -- all of whom have continued to serve with distinction each succeeding year -- the "Presidential Medallion Award". This Award consists of the medallions of those Presidents of the United States in office during the 30-year history of the Savings Bonds Program -- Franklin D. Roosevelt, Harry S. Truman, Dwight D. Eisenhower, John F. Kennedy, Lyndon B. Johnson and Richard M. Nixon.

I feel it is especially appropriate to present these Awards to our Past Chairmen who, during their tenure, brought the Savings Bonds Program to greater heights, and who have continued to offer their good counsel to the Chairmen who succeeded them and to the Secretaries of the Treasury.

And now, Harold Geneen, if you will come forward, I should like to present this Award to you, as first Chairman of the U. S. Industrial Payroll Savings Committee, while staff members present similar Awards to your fellow Past Chairmen.

The text on the first side of the plate reads --

'Presidential Medallion Award/Honoring Harold S. Geneen for distinguished patriotic service/U. S. Industrial Payroll Savings Campaigns/Presented January 13, 1972."

The text on the reverse of the plate reads --

"The Department of the Treasury, U. S. Savings Bonds Division/ A program for all Americans which has spanned the administrations of six Presidents of the United States."

Now, Bob Dorsey, I have a special award for you. As 1971 Committee Chairman, you have given unstintingly of your time and of your talent. Under your dynamic leadership, the Committee has achieved 114 percent of its goal.

It is my pleasure and privilege to present to you this gold Medal of Merit, which brings to you the high esteem and deep affection of your Committee, the Department of the Treasury, its Savings Bonds Division, and the Government of the United States. The citation that accompanies the Medal reads --

"B. R. Dorsey, Chairman, U. S. Industrial Payroll Savings Committee, For exceptional achievement in the 1971 'Take Stock in America' Payroll Savings Campaign.

"Under his leadership and inspired by his example, American industry enrolled 2,500,000 savers, far exceeding its goal of 1971, and raised sales of Series E Bonds through the Payroll Savings Plan to a new record. This contribution to the security of both individuals and the Nation is an impressive result of his efforts.

"His dedicated service is in the finest tradition of the volunteer spirit which characterizes the Savings Bonds Program and gives strength and vitality to the American way of life.

"Given under my hand and seal this thirteenth day of January, nineteen hundred and seventy-two. (Signed) John B. Connally, Secretary of the Treasury."

As I said a few moments ago, 1971 was a great year for Savings Bonds. I can also tell you that it was a pretty good year for the Treasury and for our country. And 1972 will be even better.

And so, while we can say -- with full confidence -- that our economy is improving, that inflation is coming under control, that unemployment will continue to drop, there is still much to be done.

The fight against inflation is an on-going fight. The effort to encourage thrift on the part of our citizens and to build up a reservoir of personal savings and financial security is not something we can or should turn on or off. Today, rising levels of consumer expenditures of course help provide the impetus for expansion. We want that expansion, but we also want to reinforce the long-term habit of saving and channel those savings in non-inflationary form. At present high savings rates, there is plenty of room for both encouraging consumer expenditures and thrift.

When I look at the financing problems ahead, the exceptional size of our current deficit, and the long-term need for savings, I can only repeat today what has been said before -- the Savings Bonds Program is a key element in the financial and economic health of the Nation.

By your generous and patriotic service in promoting the sale of Savings Bonds, the members of the Industrial Payroll Savings Committee will play a major role in attaining our Nation's economic objectives -- and in securing financial security for millions of Americans.

Taking his cue from Bob Dorsey, Chairman MacNaughton has accepted an increased goal for his 1972 Committee -- the enrollment of 2,300,000 employees -- either as new savers or regular savers who increase the amount of dollars they set aside regularly for Savings Bonds.

I can tell you that President Nixon shares my awareness and appreciation of your contributions to our economy and the financial stability of the dollar.

Without reservations, I predict that 1972 will be an even greater year for Savings Bonds -- and for America.

Thank you.

oOo

the Department of the TREASURY NEWS

SHINGTON, D.C. 20220 TELEPHONE W04-2041

FOR IMMEDIATE RELEASE January 13, 1972

ANTIDUMPING PROCEEDING ON WELDED STAINLESS STEEL PIPE AND TUBING FROM JAPAN

The Treasury Department announced today the initiation of an antidumping investigation of imports of welded stainless steel pipe and tubing from Japan. Welded stainless steel pipe is used in the oil refining, petrochemical, and food industries, primarily as transmission pipe and corrosive resistant pipe.

The Treasury announcement followed a summary investigation conducted by the Bureau of Customs after receipt of a complaint that dumping was taking place in the United States.

The total value of welded stainless steel pipe and tubing imported from Japan during the period January 1971 through August 1971 amounted to approximately $5,000,000.

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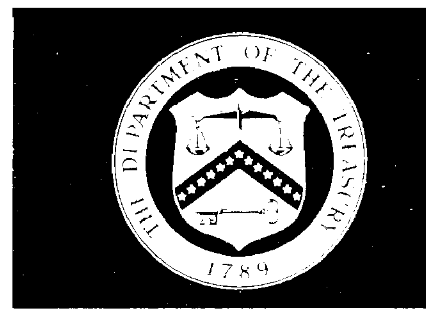
the Department of the TREASURY

SHINGTON, D.C. 20220 TELEPHONE W04-2041

NEWS



FOR IMMEDIATE RELEASE January 17, 1972

Exemptions from the 10% Additional Duty for Textile Products

Treasury Secretary John B. Connally said today that refunds will be given for any 10% import surcharge duties deposited for certain textiles exported to the United States on or after October 1, 1971. The refunds follow the recent signing of formal governmental agreements limiting textile exports to the U. S.

The refunds apply to textile imports from all nations. They are in accordance with commitments made by the United States during the negotiations leading to the memoranda of understanding with Japan, Hong Kong, South Korea, and the Republic of China.

The articles involved are those covered in the textile and apparel categories for wool and man-made fibers published in the Federal Register of October 9, 1971, by the Interagency Textile Administrative Committee. These categories include yarns, fabrics, and articles of clothing of various types which represent approximately 57 percent of the $1.5 billion 1970 total imports of such products from all sources.

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The Department of the TREASURY NEWS

ISHINGTON, D.C. 20220 TELEPHONE W04-2041

ITION: FINANCIAL EDITOR

RELEASE 6:30 P.M.,

y, January 17, 1972.

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 October 21, 1971 , and ther series to be dated January 20, 1972 , which were offered on January 11, 1972, opened at the Federal Reserve Banks today. Tenders were invited for $ 2,300,000,000 ereabouts, of 91 -day bills and for $ 1,600,000,000 or thereabouts, of 182 -day The details of the two series are as follows:

OF ACCEPTED TITIVE BIDS:	91-day Treasury bills maturing April 20, 1972			182-day Treasury bills maturing July 20, 1972	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	99.186	3.220%	:	98.271	3.420%
Low	99.168	3.291%	:	98.240	3.481%
Average	99.172	3.276% 1/	:	98.255	3.452% 1/

a/ Excepting one tender of $20,000
11% of the amount of 91-day bills bid for at the low price was accepted
71% 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	$ 23,330,000	$ 11,860,000	:	$ 11,070,000	$ 1,070,000
York	3,112,775,000	2,058,220,000	:	2,323,050,000	1,423,950,000
ladelphia	28,640,000	13,240,000	:	7,140,000	7,140,000
veland	26,135,000	24,385,000	:	9,455,000	9,455,000
hmond	11,095,000	10,220,000	:	3,140,000	3,140,000
anta	41,360,000	18,820,000	:	21,965,000	13,465,000
cago	211,850,000	55,050,000	:	190,700,000	71,800,000
Louis	48,585,000	39,605,000	:	22,895,000	17,895,000
neapolis	25,140,000	14,750,000	:	18,645,000	18,625,000
sas City	39,955,000	29,055,000	:	17,505,000	7,205,000
las	34,635,000	12,435,000	:	28,635,000	7,835,000
Francisco	58,055,000	12,650,000	:	63,105,000	18,485,000
TOTALS	$3,661,555,000	$2,300,290,000 b/		$2,717,305,000	$1,600,065,000 c/

cludes $213,400,000 noncompetitive tenders accepted at the average price of 99.172
cludes $ 83,640,000 noncompetitive tenders accepted at the average price of 98.255
ese rates are on a bank discount basis. The equivalent coupon issue yields are
% for the 91 -day bills, and 3.57% for the 182 -day bills.

The Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE W04-2041

FOR IMMEDIATE RELEASE January 18, 1972

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 $3,900,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing January 27, 1972, in the amount of $3,902,625,000, as follows:

91-day bills (to maturity date) to be issued January 27, 1972, in the amount of $2,300,000,000, or thereabouts, representing an additional amount of bills dated October 28, 1971, and to mature April 27, 1972, (CUSIP No. 912793 MY9), originally issued in the amount of $1,600,935,000, the additional and original bills to be freely interchangeable.

182- day bills, for $1,600,000,000, or thereabouts, to be dated January 27, 1972, and to mature July 27, 1972, (CUSIP No. 912793 NW2).

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, January 24, 1972. 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 frome responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of Treasury bills applied for, unless the tenders are accompanie by an express guaranty of payment by an incorporated bank or trust company.

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Only those submitting competitive tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimal 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 January 27, 1972, in cash or other immediately available funds or in a like face amount Treasury bills maturing January 27, 1972. 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, ane 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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The Department of the TREASURY

SHINGTON, D.C. 20220 TELEPHONE W04-2041

NEWS

FOR IMMEDIATE RELEASE January 18, 1972

TREASURY ANNOUNCES FISH NETS AND NETTING OF MAN-MADE FIBERS FROM JAPAN ARE BEING SOLD AT LESS THAN FAIR VALUE

Assistant Secretary of the Treasury Eugene T. Rossides announced today that fish nets and netting of man-made fibers from Japan are being, or are likely to be, sold at less than fair value within the meaning of the Antidumping Act, 1921, as amended. Notice of the determination will be published in the Federal Register of January 19, 1972.

The case will now be referred to the Tariff Commission for a determination as to whether an American industry is being, or is likely to be, injured. In the event of an affirmative determination, dumping duties will be assessed on all entries of fish nets and netting of man-made fibers on which dumping margins exist.

The above determination is narrower than the notice of Withholding of Appraisement issued on October 19, 1971. The latter covered fish nets and netting of both man-made fibers and fibers other than man-made.

The notice of withholding invited interested parties to submit written views or arguments, or requests for an opportunity to present their views orally. Written views were submitted by the attorneys for the Japanese manufacturers. No requests to present oral views were received.

During the period January 1970 through November 1971, fish nets and netting of man-made fibers valued at approximately $2,500,000 were imported from Japan.

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The Department of the TREASURY

WASHINGTON, D.C. 20220 TELEPHONE W04-2041

NEWS

FOR IMMEDIATE RELEASE

January 19,1972

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 January 31,1972, in the amount of $ 1,699,705,000, as follows:

274-day bills (to maturity date) to be issued January 31,1972, in the amount of $500,000,000, or thereabouts, representing an additional amount of bills dated October 31,1971, and to mature October 31,1972 (CUSIP No. 912793 NM4), originally issued in the amount of $1,200,265,000, the additional and original bills to be freely interchangeable.

366-day bills, for $1,200,000,000, or thereabouts, to be dated January 31,1972, and to mature January 31, 1973 (CUSIP No. 912793 PT7).

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

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Standard time, Tuesday, January 25,1972. 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 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 January 31, 1972, in cash or other immediately available funds or in a like face amount of Treasury bills maturing January 31, 1972. 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.

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The Department of the TREASURY

NEWS

ASHINGTON, D.C. 20220 TELEPHONE W04-2041

FOR IMMEDIATE RELEASE January 19, 1972

TREASURY INTENDS TO DISCONTINUE ANTIDUMPING INVESTIGATION OF SHOEBOARD FROM THE UNITED KINGDOM

Assistant Secretary of the Treasury Eugene T. Rossides announced today that the Treasury Department will publish a notice announcing discontinuance of its antidumping investigation of shoeboard from the United Kingdom. The notice will appear in the Federal Register of Thursday, January 20, 1972.

The investigation revealed that purchase price was lower than the adjusted home market price of such or similar merchandise. However, it has been determined that importations of shoeboard from the United Kingdom terminated in October 1970 and probably will not be resumed. The notice of intent to discontinue the investigation is based on the facts just described.

During the period January 1970 through October 1970, shoeboard from the United Kingdom valued at approximately $40,000 was imported into the United States.

Shoeboard is the hard substance in the toe and heel of shoes.

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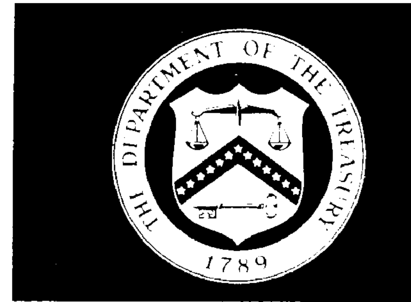
The Department of the TREASURY

SHINGTON, D.C. 20220 TELEPHONE W04-2041

NEWS



FOR IMMEDIATE RELEASE January 20, 1972

TREASURY DUMPING DECISIONS ON LARGE POWER TRANSFORMERS

Assistant Secretary of the Treasury Eugene T. Rossides announced today that large power transformers from France, Italy, Japan, Switzerland, and the United Kingdom are being, or are likely to be, sold at less than fair value within the meaning of the Antidumping Act, 1921, as amended. The Treasury Department announced a final discontinuance of its investigation of large power transformers from Sweden.

Notices of the determinations will be published in the Federal Register of January 21, 1972.

The affirmative determinations are now being referred to the Tariff Commission for a decision as to whether an American industry is being, or is likely to be, injured. In the event of an affirmative determination, dumping duties will be assessed on all entries of the subject merchandise on which dumping margins exist.

Notices of Withholding of Appraisement were issued on October 21, 1971, with respect to large power transformers from France, Italy, Japan, Switzerland, and the United Kingdom, which stated that there was reasonable cause to believe or suspect that there were sales at less than fair value. Pursuant to these notices, interested parties were afforded the opportunity to present both oral and written views prior to the final determination in these cases.

During the period from January 1970 through September 1971, the value of large power transformer imports totaled approximately $1,900,000 from France, approximately $1,400,000 from Italy, approximately $4,700,000 from Japan, approximately $1,700,000 from Switzerland, and approximately $1,300,000 from the United Kingdom.

(OVER)

On October 21, 1971, the Department published a tentative discontinuance in connection with its investigation of transformers from Sweden, as the investigation showed only minimal margins and the foreign manufacturer had offered formal assurances that there would be no further sales at less than fair value. Interested parties were also afforded the opportunity in this case to present both oral and written views prior to Treasury's final determination in the matter. During the period January 1970 through September 1971, large power transformer imports from Sweden totaled approximately $7,600,000.

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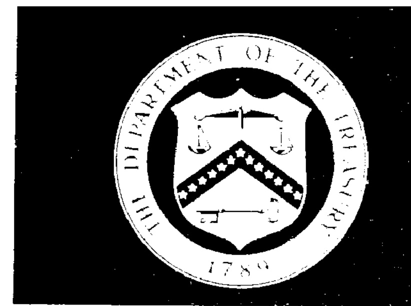
The Department of the TREASURY NEWS

SHINGTON, D.C. 20220 TELEPHONE W04-2041



EMBARGOED: MUST NOT BE RELEASED IN ANY FORM UNTIL 12:00 NOON MONDAY, JANUARY 24, 1972

STATEMENT BY SECRETARY JOHN B. CONNALLY
AT PRESS CONFERENCE ON THE BUDGET
(JOINTLY WITH GEORGE P. SHULTZ, DIRECTOR,
OFFICE OF MANAGEMENT AND BUDGET)
SATURDAY, JANUARY 22, 1972

Before we go to questions I would like to talk with you briefly about the revenue estimates and economic assumptions in the budget. Mr. Shultz plans to discuss the expenditure side.

The revenue estimates before you show a moderate gain in tax receipts in fiscal 1972 and a large increase in fiscal 1973. These increases are the result of a growing economy. The total for the current fiscal year is $197.8 billion, $9.4 billion above last year. This increase is only about half of what we would expect based on the gains in the economy; the difference, of course, is due to tax reductions.

Total 1973 revenues are estimated at $220.8 billion, a gain of $23 billion. This gain is just about what we would expect from the growth in the economy. The personal and corporate tax cuts in fiscal 1973 are offset by increases in social security taxes, which are needed to finance higher social security payments. (For details, see attached table.)

As the budget shows and as the Economic Report will explain in more detail next week, we expect the Gross National Product in this calendar year to be up about 9-1/2 percent from 1971. Personal income will be up 8 percent -- to $924 billion -- and corporate profits before taxes are estimated to rise 16 percent to $99 billion.

Attachment

C-235

I want to make it clear that despite the substantial gains in revenues, very large actual deficits are expected in the budgets for both fiscal 1972 and 1973. These deficits must be viewed in the context of the overall size of our economy and the fact that we are already passing through the peak deficit period. No one can be happy about deficits of this size. Yet they must be analyzed in the light of our economic trends.

Although we have had very robust gains in the employment totals in recent months -- 1.7 million persons added to the payrolls since June -- the unemployment rate is still in the neighborhood of 6 percent. And that is a rate that is not acceptable to this Administration. To try to balance the budget by cutting spending or raising taxes would clearly make the unemployment situation worse. On the inflation front, we are making progress, and conditions are favorable for continuing that progress.

In these circumstances, the deficits in our 1972 and 1973 budgets are bearable. They are an inevitable price for what we want to do. They are, in fact, a positive part of our program that is designed -- along with an expansive monetary policy, manpower programs and other economic policies -- to put a significant dent in the unemployment rate in the coming year.

At the same time, it would be inappropriate either to cut taxes or increase expenditures further and thus to add to the deficit proposed for fiscal 1973. The expenditure total is already about equal to the revenues that the present tax structure would produce at full employment. Expenditures should be held to that level to assure that the deficit shrinks and disappears as we reach our economic goals. We cannot escape the need to discipline Federal spending.

A deficit of significantly greater magnitude than proposed here would bring back inflation. It would upset the relative stability achieved in the financial markets -- and thus lead again to sharply higher interest rates. It would undermine the price-cost stabilization program. In short, the budget deficit proposed for the coming fiscal year is large enough to lead the fight against unemployment but not so large as to endanger the battle against inflation.

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Projected Changes in Budget Receipts
Fiscal Years 1972-1973

	(In billions of dollars)	
	Fiscal 1972 from Fiscal 1971	Fiscal 1973 from Fiscal 1972
Revenue changes traceable to:		
Economic growth	+17.6	+24.0
Tax Reform Act of 1969	- 2.7	- 2.5
Revenue Act of 1971	- 4.4	- 2.5
Changes in Depreciation Regulations	- 3.0	- 0.2
Social Security changes, enacted and proposed	+ 2.1	+ 6.4
Other changes	- 0.2	- 2.2
Total	+ 9.4	+23.0

UNITED STATES DEPARTMENT OF THE TREASURY

OFFICE OF THE SECRETARY

The International Ballroom
Washington-Hilton Hotel
Washington, D.C.

ADDRESS OF THE HONORABLE JOHN B. CONNALLY

SECRETARY OF THE TREASURY

to

THE CHAMBER OF COMMERCE OF THE UNITED STATES

January 20, 1972

INTRODUCTION BY:

ARCH BOOTH, Executive Vice President
The Chamber of Commerce of the
United States

-oOo-

MR. BOOTH: Ladies and gentlemen: The Secretary of the Treasury has arrived, direct from the Capitol. He will join us here for a very brief visit. He will comment on the State of the Union Message, and on the Nation's economic policies.

It is a great pleasure to present the Secretary of the Treasury, the Honorable John B. Connally.

(Applause)

SECRETARY CONNALLY: Thank you very much, ladies and gentlemen. I am delighted to be here. It is a great pleasure to appear before such a distinguished audience under the auspices of the Chamber and, more particularly, I am delighted that I can appear as a substitute for Under-Secretary Charls Walker. I was not originally invited to speak to this distinguished gathering, but Charlie found that he had to make a speech in Denver today, and I agreed to substitute for him at this particular meeting. It is of some significance, I think, that he was substituting for me in Denver!

(Laughter)

Jack, I wish I could have been here to hear all that you had to say to this distinguished gathering but, as things happen, occasionally, I had another commitment that I had to make. I was listening to another speech, so I missed yours.

But I heard a great speech. you all know, I have just come from the Capitol where the President delivered his State of the Union address. I was tremendously impressed with his speech for a number of reasons.

I was tremendously impressed, first, by the tone and the spirit of the speech.

I was impressed because he did not lay forth a large list of actions for the Congress to consider in this particular year. He did not do so, largely, because there is a large amount of work they have yet to do He knew full well we had a number of major matters pending before the Congress that they had not yet acted on.

I was impressed by the deep substance, and the feeling of the President, himself that came through his speech; his concern for this Country, for its fundamental values; for its basic thrust during the 1970's I think, more than anything else, that is what he was trying to convey. He was not speaking, in any sense, in a partisan way He was not trying to appeal to any particular group; nor was he trying to divide group against group. He was not trying to separate individuals, communities, or groups, within this Nation. He was speaking to the Nation, as a whole; appealing to the Nation as a whole for their help, for their cooperation

He was, in a sense, asking this Nation to pause and reflect, and to think and consider what kind of a Nation

this is, what kind of a Nation do we want to be; and how much are we willing to contribute to building what we see as the road for this Nation in the 1970's.

This is largely the task upon which he has been embarked for the past several months. I don't want to, here, deal in superlatives, but I think it is fair to say that during the past several months, this Nation -- under the President's leadership -- has undertaken far reaching steps to set aright some of the difficulties that are plaguing this Country. Part of those actions is the reason you are here today. Part of those actions has imposed a freeze upon this Nation, followed by wage and price controls; the creation of the Pay Board and the Price Commission, which are being manned by distinguished and dedicated Americans.

I want here to publicly express the profound gratitude of this Administration, from the President on down, to Judge Boldt; to Chairman Grayson; to the Members of their Respective Boards and Commissions, for their unselfish service in dealing with what has to be one of the most difficult problems that this Nation is confronted with today, and one of the most thankless. It is done in a very self-less fashion, and I think we are entitled to an accolade from everyone here, and everyone else in this Nation.

(Applause)

If I may, I would like to say a few more things and then, if it is your wish, I will undertake to respond to questions that you have. Don't be lulled into thinking that I can answer them. I am just going to respond to them.

(Laughter)

I cannot completely give all of my time to you to ask questions, because, frankly, there are a few things I want to say.

I have heard for a number of months -- a number of months -- about the uncertainty that prevails in the United States; uncertainty in the minds of people; criticisms in the tones of others; uncertainty about the domestic policy; concern about the International Monetary situation; the International economic picture.

"What is going to happen?"

This has been voiced over and over again. I recall early last year, when I first came to Washington, we were embroiled in trying to get through the Congress -- well, we Administratively acted, then tried to assure the Nation and the Congress that the Treasury's actions with respect to Depreciation Schedules were the right thing to do and the right kind of stimulus for the Nation. The Business community kept saying, throughout the Country, "We need an Investment Tax Credit. We need an Investment

Tax Credit." This is what we heard. "If we just had that, everything will be all right.

So we got it. So what have we done with it? Nothing.

We go up on the Hill time and again, and we are the ones -- this Administration has defended the American business enterprise in this Nation far more than you have defended yourselves.

I did not come here to criticize you.

I did not come here to fuss at you.

Frankly, I came here to try to tell it to you as I see it, and to try to answer some of the questions that I know you are going to have.

We have done precisely that. We put into effect the Depreciation Schedule, and we felt that it probably was not doing the job. So we went back and, as a part of the Tax Plan, we advocated the Investment Tax Credit; that it be reinstated on a permanent basis.

Now, the question is: What happens?

Science made a 5% increase during 1972 -- that is, plant purchases and commitments for plant equipment. That is much better than a 9% decrease. But I would not say that that is any great banner year, born of any great confidence in the future economy of this Country.

I don't think that 7% was too vital to any of you.

What else did we do?

We took a number of other actions on taxes.

We talked about profits, and what profits mean to this System, and to this Society. This Administration has not been one bit afraid to talk about profits, or to defend the System under which you make profits. We have said that profits of American business enterprises during the last year or two have been lower than they have been in many, many years; lower than at any time in the last 30 years.

We have pointed out that profits are what fuel this economy. That is what creates the jobs. That is what makes it possible to build these plants; to buy new equipment. We have done everything we know how to do, to stimulate this economy. Through spending too much?

Wait until you see the deficit -- if you are not already afraid! They say we are not stimulating it enough.

I, frankly, as Secretary of the Treasury, wish some of you would accompany me when I go up next week to defend our position and ask for an increase of the debt ceiling. It is going to be a very interesting hearing. (Laughter) If you have any idea of what I ought to say, I have a few days to get your mail. I would be delighted for any help that you can give me, I assure you.

We have time and again, time and again, said that

the greatest fear we have is fear of ourselves, and fear of uncertainty.

As part of the Tax Program, we did everything that we knew how to do. The President suspended the convertibility of the dollar. For weeks and months we heard: 'Well, this is what is what is holding all of the profit. If we could just get it settled ...... if we could just settle this Inter-Monetary thing, everything would be all right "

So we settled it.

Now, there is concern about other things.

The truth of the matter is that I know there is this uncertainty in your minds. There is uncertainty as to how long you are going to have wage and price controls. There is uncertainty in your minds about: What does this Administration intend to do?

I can tell you very quickly. The philosophy of this Administration basically is against wage and price controls. Conditions were reached in this Nation that made it imperative that we have them You do have them. Now, you are asking: "How long are we going to have them?"

I can answer that one, too!

You are going to have them so long as it is necessary to bring inflation down to the goal we have set,- of 2-to-3 percent. That is how long you are going to have them.

Now, when does that time come?

That time comes largely when you want it to come. That time is going to depend upon how cooperative you are, and how forceful you are, and how ambitious you are to end these controls.

We don't conceive the Government as an instrumentality designed to inflict onerous requirements upon American Free Enterprise.

We don't conceive that we can cure all the ills of this free enterprise system.

We conceive the Government, and what we can do, as an instrumentality to work cooperatively with you in trying to solve some of our common problems.

But I will say to you, in all candor -- without any embarrassment whatsoever -- that you cannot look to the Government for the complete answer to your problems When we end wage and price controls is going to depend on you. It is going to depend on you and Labor relations across the bargaining table. It depends upon Labor.

When each of you makes up your mind that you can no longer negotiate and expect anybody to support unconscionable and unreasonable wage demands in this Country; when you make up your mind that you have to increase your productivity; that you cannot continue to expect to raise your prices in unconscionable fashion; then we are going to stop

inflation. We are going to try to stimulate the economy. We are going to try to provide the jobs that people in this Country need. We are going to do all we can. We are going to do it in the most cooperative way we know how.

There is nothing uncertain about the future of this Country. Sure, there are problems. I cannot tell you the day, or the week, or the month that the Price Commission is going out of business, or the Pay Board is going out of business. They are going out of business when their job is done. It will depend upon you.

You employ the people. You affect the economy. The Government, really, is a small part of it. So make up your minds when you want to get it over with. That is the best answer I can give you.

But, if you are not in a hurry, maybe it will be on for some time. I will tell you that. They are on now. We put them on. It is a whole lot easier to take them off. As long as they are on, we are going to wait until they do the job. It may be summer; it may be fall; it may be this year, or four years from now. I don't know. What we say to you is: Some of the uncertainty stems from the fact that people -- just like me -- get up here and say to you: "We don't believe in controls."

The Cost of Living Council says we ought to

Country. There are well over a million of them; 75% of the business establishments in this Country -- retail business establishments in this country -- but they only do 14.8% of the volume. They are exempt Everybody says, "If we will just hold tight a little bit, maybe we will get exempt." But you are not in that category.

(Laughter)

If you all want to be the "big boys" in the Industrial world -- which you are, it is not everybody that gets into Tier 1 (laughter) -- you will get special treatment I mean that You are going to get very special treatment. (Laughter)

So, how long that is, is going to depend on how good a job we all do. We recognize it; we don't have a perfect system.

We look at the 964,000 inquiries that we have had since November 15, through January 11. The Internal Revenue Service has had 964,000 of them! That is 24,000 inquiries a day! We look at the 30,000 complaints that the IRS, alone, has received during that period of time; of alleged violations 19,000 of those have already been resolved. So we think we know a little something about what the people think; what they are concerned with. We are trying to answer them as fast as we can. Jack Grayson is trying; and his Commission is trying; and the Pay Board is trying. We are all trying,

None of us are prepared to say that we are doing a good job, much less a superb job. All I can say to you is: We are doing the best we know how, with what we have. I am sure we are entitled to constructive criticism -- even complaints. We don't mind those, but we also think, along with constructive criticism and complaints, goes a little cooperation. The three "C"s. If I had my way, I would put "Cooperation" first. If you all want to put it third, we will even take it that way!

So, we are not going to defend the system: It's not a perfect system It is the only one we have. It is the only game in town, so to speak. So we are playing it. We are going to play it fairly; we are going to play it as hard, and as fairly, and as judiciously, and as expeditiously as we know how. We are going to try to meet the needs. You know what the objectives are. You know what the goals are. There is no mystery about that. There is no uncertainty about it.

We are trying to re-establish the free play, in the market place, of this economy -- of all aspects of this economy. It has gotten out of kilter. We are trying to right it -- to set it a-right -- then turn it loose.

Is there uncertainty, any more, about the International Monetary situation? Or our relationship with

our International Trading Partners? I think not.

We have some legislation we have yet to do. We have some negotiating we have still to do; with some of our partners.

We are always going to have some of these problems. The time is never going to come when you, as leading business men in this great Society -- this great American System -- can relax and sit back secure in the knowledge that everything is certain. I believe it was President Eisenhower who said, "There are only two certain things. One is Death; the other is: Taxes until you die".

These are not very acceptable alternatives to what we have now.

If I know anything about the American spirit; if I know anything about American business; you don't want too much certainty because, when you get things so clearly defined, and so definitely established that it is certain, then you can be absolutely certain of one other thing. That is: We are not making progress, and we are going to lose the competitive position of American products and commodities in the World markets, because I am telling you: The rest of the world is at work while we are worrying. That is the Truth of the matter. They are out-working us: they are out-planning us, day after day. Those of you who are dealing in the International Markets; those of you who compete in the

International Field know full well what I am talking about. Now, somehow, you have got to lead a resurgence of the American Spirit of Work. We have to return to our Puritanical system of work, if we are going to survive; if we are going to build; if we are going to grow; if we are going to expand.

I cannot promise you certainty -- if I could, I wouldn't, because what we have to do is to keep the incentive, the initiative, the genius of America at work in this Country, and in the World. That is your only hope.

I see other Countries around the world, and how they operate; how they manage. This Country does less to try to manage your affairs, I think, than any other Country -- advanced Country -- on the face of the earth. But I don't think you want their Systems. I think our own System ought to give us ample evidence that we have gone further; we have produced more; we have done it better; we have created more; we have provided more, in a cheaper fashion, than any people, using any System, since the Creation of Time.

Why do we want to quit it?

We are not trying to quit it. We are not trying to revolutionize the System under which we function.

We are trying merely to make it function, in a period of stress, a little more efficiently to get it back in basic equilibrium.

SECRETARY CONNALLY: Did you hear the question?

"Is Business wasting its time under this Price Control Program, with the Federal Government going $40 billion in debt?"

Well, in a short run, if you want to be pessimistic, if you want to be despondent, you can. I am not ready to concede that we are going $40 billion in debt -- just for the sake of the Press here! (Laughter)

I want to enter a little disclaimer. I am not going to tell you what the figure is.

Let's assume that, for the moment. (Laughter)

The Government is on the horns of a dilemma. None of us like a $40 billion deficit, or a $35 billion deficit, or any kind of a deficit. What is your alternative? What position would this Administration, or the Government, be in, if we had a balanced budget, with over 5 million people unemployed?

Is that an acceptable alternative?

Is that an acceptable solution?

I think not!

We live in a political environment; we live in a political society. You cannot always do things in the pristine purety of a philosophy that you would like to go on. I am not a debt-sustaining man. When I was Governor of our Home State, we never had a deficit. We had a surplus.

So, frankly, I am somewhat at a loss to understand the uncertainty, that I come to hear about, that prevails in the minds of business leaders throughout the Country. At least, I hope that in the coming weeks and months, we can dispel the concern, and dispel the uncertainty. We will be trying. We will be doing everything we know how -- both at home and abroad. You can be sure that, at home, we are going to try to give you as much running room as we possibly can so that you can use your own innovations; your own energy to build and create.

You can be sure our International leaders are going to try to protect your ability to compete on a fair and equitable basis in the markets of the world. Of that, you can be sure.

So, with no more assurance than that; with no greater definition of certainty than that, let me attempt to answer your questions.

MR. BOOTH: All right. If you have a big, strong voice, stand up and let the Secretary hear it, please. I don't like to take the bloom off of that beautiful speech by asking questions, but he is ready!

QUESTION: Is Business wasting its time under this Price Control Program, with the Federal Government going $40 billion in debt?

I passed three Tax Bills. In every Legislature for the past two years, we did have a surplus. I don't believe in debt-spending. But, occasionally, we have to have it. We are in a stagnation period. We are in a period of economic slackness. We have to have some physical stimulus. We have provided it. We have provided quite a bit of it. This ought to be encouraging to you.

Now, as a matter of Government philosophy, I can understand your concern but, as a matter of devising and restoring some vitality into this economy, you ought to be upholding it.

MR. BOOTH: I will take just one more question.

SECRETARY CONNALLY: Let's take more.

MR. BOOTH: Your people, and Dr. Grayson's people are here; they are eager to get out there.

Let's take one more question.

QUESTION: Mr. Secretary, why don't you ask for a tax increase?

SECRETARY CONNALLY: Why don't we ask for a tax increase?

We just had a major tax decrease, for one thing. It would be a little bit inconsistent.

(Laughter)

Secondly, we don't ask for a tax increase for the simple reason that we are trying to put money into the

Economy. We are trying to stimulate the Economy because all have said, "This is what is wrong with it. We don't have economic stimulus. We don't have the inventories. We don't have the purchase of plant equipment."

We tried to stimulate the economy further with tax cuts.

Now, I say again, to argue philosophically: When you consider the practical alternatives that face this Government, or any other Administration, you come out at different points. What we are trying to do is to stimulate the Economy so we can get these tax revenues; so that we can have balanced budget. I think for the Government -- like anybody else -- it is a matter of Governmental philosophy: We want to operate on a balanced budget, just like any business has to do. We are no different, but there are exceptions. We are not in the profit-making business. As a general rule, we ought to be prepared to tax for what we spend. But there are times when economic conditions are such in the Country that, in my judgment, the Government is justified in deficit spending. And we have been in such a period.

MR. BOOTH: Mr. Secretary, let us thank you, because these people are out here, waiting to tell us how to make your talk work. in practical action.

Jack Grayson's people are in the Work Shops out here.

So, give the Secretary a big hand.

(Applause)

(Whereupon, at 2:30 o'clock, p.m., the address of Secretary Connally was concluded.)

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The Department of the TREASURY NEWS

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

FOR IMMEDIATE RELEASE

STATEMENT BY JACK F. BENNETT
DEPUTY UNDER SECRETARY FOR MONETARY AFFAIRS
ON THE
PROPOSED EXPORT EXPANSION ACT OF 1971
BEFORE THE
SUBCOMMITTEE ON INTERNATIONAL COMMERCE AND TOURISM
OF THE
SENATE COMMERCE COMMITTEE
JANUARY 24, 1972

Mr. Chairman, I am grateful for your invitation to represent the Treasury in your discussions this morning. In view of the basic objectives of your inquiry, I am happy to be able to report that all parts of the Treasury have been working strenuously to assist in creating conditions which will permit profitable participation by Americans in international trade. We are convinced that our activities implementing the programs announced by the President last August 15 will have substantial beneficial effects because they deal with underlying forces and seek to remedy basic structural defects which have hampered American producers in international competition.

The large size of the international payments deficits which the United States was incurring was clear evidence that

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conditions facing the American producer in international competition were in their combined effect powerfully unbalanced against the United States prior to August 15. The significant change in the structure of international exchange rates which have been negotiated since that time is one important contribution to rectifying an unacceptable basic situation. The exchange rates changes will improve the price competitiveness of American resources and American labor both at home and abroad. The new exchange rates will be reflected in lower foreign currency prices for U. S. goods to purchasers abroad and in higher dollar prices for imported goods in our own markets

While existing techniques of estimating future levels of international trade after a large change in exchange rates are not accurate enough to provide reliable detailed forecasts of the magnitude and timing of prospective benefits to U. S. trade, past experience does suggest that the effect of the recent realignment will be substantial even though gradual.

Initially, the effects of the realignment may actually be perverse on our reported trade statistics, as imports having a higher dollar cost continue to enter the country on the basis of business commitments and plans made before the realignment.

But the importance of this factor will diminish and the U. S. trade balance should be reflecting substantial changes by the last quarter of this year as the changes in relative prices and costs are increasingly reflected in new market decisions. We anticipate a reversal of the recently deteriorating trend in the U. S. international trade balance despite the projected upswing in the U. S. economy and despite the less than traditional rates of economic growth expected in a number of important foreign countries during the year. We are starting, however, from the deficit position which we had in 1971, and the effects of exchange rate changes will be fully felt only over a period of several years.

As I am sure you are all aware, agreement has been reached not only on the immediate realignment of currencies but also on the need for futher negotiations for reform of the international monetary system over the longer term. The issues for these negotiations are complex, and it should not be expected that major changes in the system can be worked out in a short time. But the United States will be participating in these discussions with the objective of creating conditions less conducive to barriers to U. S. exports and less conducive

to other measures which serve to reduce the benefits which Americans can derive from international trade and investment. One beneficial change has already been introduced on a provisional basis: the use of somewhat wider exchange rate margins by most major trading countries. Experience with wider margins will provide a useful basis for consideration of the types of additional flexibility which may be needed to facilitate international commercial payments.

The proposal which we hope to be able to send to the Congress early in February for a change in the par value of the U. S. dollar in terms of gold is not expected to have any direct effect on the exchange rates prevailing in the markets of the world. This Act therefore will not directly contribute any further improvement to the competitive position of U. S. producers. The proposed change is, however, highly relevant to our trade position in that it would represent fulfillment of a promise given by us in the successful negotiations which led to the new exchange rates which are now effective in the market. Moreover, submission of the bill, when it is possible, will signify that meaningful progress can be reported to the Congress on negotiations which are now

under way with Japan, Canada, and the European Economic Community to remove some existing barriers to U. S. exports. It is our expectation that these current negotiations will be merely the forerunner of broader negotiations which we hope will lead to substantial further improvement over the next two years in the conditions which American producers face in competing with foreign producers.

The President's New Economic Policy also contains a tax change which will assist U. S. exporters by removing the previous disparity of tax treatment between the sales income earned by U.S. owned corporate subsidiaries abroad and the sales income earned by domestic U. S. corporations on the export of products manufactured in the United States. I refer to the provisions in the Revenue Act of 1971 for a new type of U. S. corporation, the Domestic International Sales Corporation, commonly referred to as the DISC. The DISC provisions are expected to simplify the task of determining tax liability on income earned through exporting and to put the U. S. exporter in the position of greater equality with his competitors abroad with respect to taxation. The DISC provisions therefore remove tax disincentives which have faced U. S. companies in

producing in the United States for export to foreign markets. This week we expect to be circulating throughout the country an extensive publication to explain to businessmen how they can avail themselves of the new DISC provisions.

All these measures I have discussed have related directly to U. S. foreign trade. Their combined effect in improving our over-all trade position will be greatly enhanced, of course, by the basic domestic elements of the President's New Economic Program. The abatement of inflation in the United States and the improvement of productivity which have already begun will combine with the direct international measures to produce a strong improvement in the relative competitive position of U. S. goods and services in world trade. Some time will be required before events reveal precisely what are the combined effect of these fundamental measures, but it is our judgment that no major new initiatives are required today with respect to governmental measures bearing on the U. S. trade balance. Of course we should be ready at any time to weigh carefully the potential benefits of any suggested changes which may be justified in their own right

even though they do not respond to crisis conditions. In this light, S.2754 which you have before you lists a number of possibilities worthy of further study.

Of those possibilities, two are of most direct relevance to Treasury Department operations. One of these is the title VIII provision for establishing a discount facility for short-term export credit obligations in the Export-Import Bank. On this subject, our judgment supports that of Chairman Kearns that the Bank already has ample legislative authority for this purpose under existing legislation, and that what is needed now is an opportunity to gain experience with the recent expansion of the Bank's discount facilities. The Export Expansion Finance Act of 1971 requires the Bank to submit to the Congress a semi-annual report on its own state of competitiveness with foreign government-supported export financing institutions. The first of these reports is under preparation now. I understand that indications are that the report will show Eximbank's facilities, including those in the short-term range, to be fully competitive with corresponding facilities available to the exporters of other major trading countries. If experience

or that report reveal the need for further legislative change, I am sure an Administration recommendation for such change will be submitted promptly.

A second part of the bill having particular reference to the Treasury is Title X, which would authorize the Secretary of the Treasury to approve the duty-free delivery of machinery, raw materials and fuel into foreign trade zones for use in the manufacture of goods in the zone for export to destinations other than the customs territory of the U. S., subject to certain determinations by the Foreign Trade Zones Board. From the experience of our Customs Bureau and from Treasury participation in the Foreign Trade Zones Board, we realize that the use of the foreign trade zone device under existing legislation has been limited and that only a fraction of the products of these zones has ultimately been exported. And we can conceive of circumstances, particularly when a bulky U. S. raw material is involved, when an export manufactured from that material might be salable with use of duty-free and quota-free foreign fuel and machinery and might not be possible with domestic machinery and fuel. But, on the other hand, it would probably be extremely difficult for the Trade Zones Board in any particular case to determine that approval of a long-term manufacturing project in

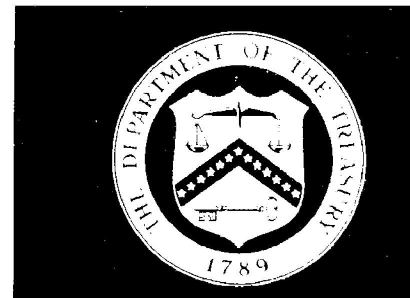
a foreign trade zone would not over its life back out the export of other U. S. products which had embodied the labors of U. S. producers of machinery and fuel. In view of the complexity of this situation, we recommend that time be given for further careful study of this matter before new legislation is undertaken.

Mr. Chairman, that concludes my prepared statement. I would be happy to attempt to answer any questions you may have.

The Department of the TREASURY

SHINGTON, D.C. 20220 TELEPHONE W04-2041

NEWS



NTION: FINANCIAL EDITOR

RELEASE 6:30 P.M.

January 24, 1972

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 October 28, 1971 , and other series to be dated January 27, 1972 , which were offered on January 18, 1972, opened at the Federal Reserve Banks today. Tenders were invited for $2,300,000,000, ereabouts, of 91-day bills and for $1,600,000,000, or thereabouts, of 182-day s. The details of the two series are as follows:

OF ACCEPTED TITIVE BIDS:	91-day Treasury bills maturing April 27, 1972		182-day Treasury bills maturing July 27, 1972	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv. Annual Rate
High	99.125	3.462%	98.113	3.733%
Low	99.110	3.521%	98.100	3.758%
Average	99.117	3.493% 1/	98.102	3.754% 1/

49% of the amount of 91-day bills bid for at the low price was accepted
91% of the amount of 182-day bills bid for at the low price was accepted

TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

trict	Applied For	Accepted	Applied For	Accepted
ton	$ 16,705,000	$ 5,905,000	$ 16,670,000	$ 1,170,000
York	2,973,360,000	1,852,955,000	2,744,130,000	1,439,520,000
ladelphia	29,860,000	14,860,000	17,930,000	6,130,000
veland	22,525,000	22,375,000	28,780,000	7,440,000
hmond	9,050,000	7,050,000	2,385,000	2,385,000
anta	45,275,000	27,370,000	26,625,000	9,230,000
cago	257,120,000	188,395,000	255,065,000	47,110,000
Louis	68,120,000	54,860,000	37,025,000	9,025,000
neapolis	29,715,000	17,715,000	44,510,000	30,510,000
sas City	37,765,000	26,190,000	19,685,000	7,385,000
las	33,730,000	10,730,000	34,280,000	8,280,000
Francisco	131,940,000	71,780,000	374,500,000	34,750,000
TOTALS	$3,655,165,000	$2,300,185,000 a/	$3,601,585,000	$1,602,935,000 b/

cludes $195,745,000 noncompetitive tenders accepted at the average price of 99.117
cludes $102,590,000 noncompetitive tenders accepted at the average price of 98.102
ese rates are on a bank discount basis. The equivalent coupon issue yields are
3 % for the 91-day bills, and 3.89% for the 182-day bills.

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

FOR IMMEDIATE RELEASE January 25, 1972

WILLIAM B. BUTLER IS NAMED FIRST DIRECTOR OF
CONSOLIDATED FEDERAL LAW ENFORCEMENT TRAINING CENTER

Treasury Secretary John B. Connally announced today that William B. Butler, 55, of Houston, Texas, has been appointed as the first Director of the Consolidated Federal Law Enforcement Training Center.

The Center, now in temporary quarters, eventually will be located in facilities now being built on a 490 acre tract near Beltsville, Maryland. After it moves into its permanent quarters the Center will provide basic refresher, in-service and advanced training for the law enforcement personnel from 20 or more different Federal agencies. Each year training will be given to more than 8,700 Federal police officers and criminal investigators.

Assistant Secretary Eugene T. Rossides will swear Mr. Butler into office at a ceremony to be held at 11:00 a.m. on Thursday, January 27, at Room 4121, Main Treasury.

Previous to this appointment, Mr. Butler was a Special Assistant to the Assistant Secretary of the Treasury (Enforcement, Tariff and Trade Affairs and Operations) and to the Commissioner of Customs.

From January 1958 to July 1961 Mr. Butler was the U.S. Attorney for the Southern District of Texas. He stayed with the U.S. Attorney's office from 1961 to September 1969 as Assistant U.S. Attorney, Chief of the Civil Division.

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(OVER)

Mr. Butler, a 1939 honor graduate of the University of Texas Law School, has practiced law privately. He spent nearly four years with the FBI, and served as an officer in the Navy during World War II and Korea.

Mr. Butler is married to Nancy Louise Ranson of Farmville, Virginia. They have three children, two boys ages 15 and nine and a girl, 14. He lives in Silver Spring, Maryland.

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The Department of the TREASURY

WASHINGTON, D.C. 20220 TELEPHONE W04-2041

NEWS

FOR IMMEDIATE RELEASE January 25, 1972

ANTIDUMPING INVESTIGATION INITIATED ON
CANNED BARTLETT PEARS FROM AUSTRALIA

The Treasury Department announced today the initiation of an antidumping investigation of imports of canned Bartlett pears from Australia.

The Treasury announcement followed a summary investigation conducted by the Bureau of Customs after receipt of a complaint alleging that dumping was taking place in the United States.

The total value of canned Bartlett pears imported from Australia during the period from January 1970 through September 1971 amounted to approximately $2,000,000.

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The Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE W04-2041

FOR IMMEDIATE RELEASE January 25, 1972

DECISION ON VINYL ASBESTOS FLOOR TILE FROM CANADA
UNDER THE ANTIDUMPING ACT

The Treasury Department announced today the issuance of a tentative determination of no sales at less than fair value in connection with its antidumping investigation of vinyl asbestos floor tile from Canada.

The notice will be published in the Federal Register on January 26, 1972.

Information gathered in this investigation shows that the price to buyers in the home market was lower than the price to buyers in the United States.

Appraisement of the above described merchandise from Canada has not been withheld.

During the period from November 1970 through September 1971 imports of vinyl asbestos floor tiles from Canada were valued at approximately $600,000.

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The Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE W04-2041

FOR IMMEDIATE RELEASE January 25, 1972

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 $3,900,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing February 3,1972, in the amount of $3,902,575,000, as follows:

91-day bills (to maturity date) to be issued February 3, 1972, in the amount of $2,300,000,000, or thereabouts, representing an additional amount of bills dated November 4, 1971, and to mature May 4, 1972 (CUSIP No.912793 MZ6),originally issued in the amount of $1,601,895,000, the additional and original bills to be freely interchangeable.

182- day bills, for $1,600,000,000, or thereabouts, to be dated February 3, 1972, and to mature August 3, 1972. (CUSIP No. 912793 NXO).

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, January 31, 1972. Tenders will not be received at the Treasury Department, Washington. Each tender must be for a minimum of $10,000. Tenders over $10,000 must be in multiples of $5,000. In the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e.g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

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

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

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Only those submitting competitive tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on February 3, 1972, in cash or other immediately available funds or in a like face amount of Treasury bills maturing February 3, 1972. 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.

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The Department of the TREASURY

SHINGTON, D.C. 20220 TELEPHONE W04-2041

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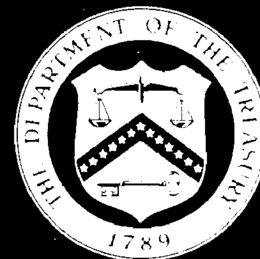

FOR IMMEDIATE RELEASE

REMARKS OF EUGENE T. ROSSIDES
ASSISTANT SECRETARY OF THE TREASURY
(ENFORCEMENT, TARIFF AND TRADE AFFAIRS, AND OPERATIONS)
before the
NEW YORK CITY CHAMBER OF COMMERCE
CHAMBER OF COMMERCE BUILDING
NEW YORK, NEW YORK

January 25, 1972 1:00 P.M.

It is a pleasure to be here today to discuss with you the Treasury Department's program to curtail theft of international cargo. Early in this Administration, President Nixon directed an all-out drive against drug smuggling and organized crime. These became Treasury's highest priorities in the area of law enforcement. The long-neglected problem of cargo theft fell into both these priority areas.

The three points I will cover with you today are:

(1) Treasury's proposed legislation, the Customs Port Security Act. Passage of this legislation would, in my judgment, result in the reduction to a minimum of cargo theft at the New York airports and all other airports of entry throughout the United States within six months to one year, and a substantial reduction of cargo theft in New York Harbor and at all seaports of entry within one year.

(2) The issuance today by the Treasury Department of "Standards for Cargo Security." We hope that these standards will receive the full cooperation of industry and result in a reduction in cargo theft.

(3) The commencement of pilot projects on the New York and San Francisco waterfronts.

Background

Before discussing these points let me explain the perspective from which Treasury sees its involvement in the matter of cargo security.

The gravity of the cargo theft problem is well known to all of you. While the direct dollar loss is in the millions of dollars, business suffers in other ways:

-- Insurance premiums are increased.

-- Export sales and markets may be lost.

-- Manufacturing schedules may be delayed and workers laid off due to lack of foreign components.

-- Stolen merchandise is peddled by the underworld in competition with legitimate businesses, including the importers from whom the property was stolen.

The Treasury also loses because Customs may not be able to collect duty on cargo which has been stolen and because lower income taxes are paid by importers who: (1) fail to receive stolen merchandise which they would otherwise sell at a profit, and (2) claim a deduction on their income tax returns for uninsured theft losses. The loss of export cargo also has an obvious effect on our critical balance of payments situation.

From the moment that imported merchandise is unloaded from an aircraft or vessel at a United States port of entry, it is under "Customs custody." It remains in Customs' custody until it is released by Customs for entry into the commerce of the United States. After this release, delivery may be made by the carrier either directly to the importer or to a designated agent, such as a customhouse broker or freight forwarder.

Customs is concerned with cargo losses occurring during this period of "Customs custody." While the carrier is responsible for insuring the physical security of the merchandise during this period, Customs does exercise control over its movement until an arrangement for payment of duty has been made and until Customs is satisfied that contraband, such as heroin and other illicit drugs, is not being smuggled into the United States. Clearly, any theft or pilferage of merchandise before its release from Customs custody threatens both the proper collection of duty and the prevention of smuggling, with which Customs is directly charged.

The Treasury's action program to combat cargo theft was based upon these responsibilities and capabilities of Customs.

1. Treasury's Legislative Proposal--Customs Port Security Act

The most important need we have at this time is passage of the legislative proposal which Treasury submitted to Congress on behalf of the Administration and which was introduced last spring as the Mills-Byrnes bill (H.R. 8476) and the Bennett bill (S. 1654). This legislation would give the Secretary of the Treasury authority to establish nationwide standards for security, both physical and procedural, at seaports and airports of entry.

The proposed bill directs the Secretary of the Treasury to establish by regulation national standards for cargo protection at seaports and airports of entry. These minimum standards will be based upon the Standards for Cargo Security which the Department of the Treasury has issued today to aid industry and local Customs officials in remedying cargo security problems. I believe that full implementation of these standards would produce a significant decrease in cargo theft at minimal cost to industry.

Since the legislation requires all ports and terminals to meet the same basic standards, it also assures that no one port or terminal will be competitively disadvantaged. Furthermore, because Customs already has a physical presence at all major seaports and airports, it will be able to monitor compliance without the need to create a new bureaucracy to be paid for by industry or the public.

We recognize that adoption of these minimum security measures may not be sufficient to curb cargo theft in all instances. The bill, therefore, provides for the establishment of "Customs security areas" when the Secretary makes a finding that within a port or portion of a port there is an unusual risk of theft or pilferage of international cargo. Such a finding would only be made after a hearing has been held on notice to the appropriate terminal operator or carrier. "Customs security areas" will have to conform to even tighter security measures than those prescribed under the national standards and access to such areas would be restricted and under the control of Customs officers.

To obtain access to a Customs security area, the Secretary may require a display of identification cards or badges approved by the Customs officer in charge of the port. The bill also identifies violations for which the Customs officer may suspend or revoke an identification card and the procedures which he must follow when he takes such action. These procedures provide for a full hearing and review if requested by the aggrieved party.

The thrust of this legislation is to provide for equality throughout the country in meeting certain minimal security standards. Only in specific areas of demonstrated high-theft risk, where normal measures have either failed or not been taken, would more stringent measures and controls be imposed. Treasury would expect to define those areas as narrowly as possible--not an entire port if we could pinpoint a dock area; not a dock area, if we could specify a particular pier; not an entire airport, if the problem were concentrated at a specific carrier's terminal.

Assuming industry compliance with the national standards, we anticipate that few Customs security areas will be established and we would hope to work ourselves

out of the security business in those areas as rapidly as possible.

2. Standards for Cargo Security

The Standards for Cargo Security which are being released today by Treasury as industry guidelines set forth the cargo protection measures which experts in industrial security believe should be implemented at cargo handling facilities to provide a minimum level of security. The topics covered include such matters as storage areas for high-value items, lighting, fencing, and guards, as well as procedural matters. They are simply those security measures which prudent management should take in its own interest. We anticipate that carriers and terminal operators will voluntarily observe these standards and that there will be a significant reduction in cargo theft as a result.

The need for improved cargo security is substantiated by a Customs survey of cargo handling and storage facilities at piers and terminals throughout the country. The reports received from each district indicate that glaring security deficiencies exist in some areas. Examples are:

--Cargo being stored in unattended, unfenced areas to which unauthorized persons have easy access.

--Employees being allowed to park their private vehicles in cargo unloading areas.

--Shipping documents being left where they can be inspected and removed by unauthorized persons.

Carriers and terminal operators in those ports will be asked to take the appropriate corrective actions recommended in the security guidelines issued today.

3. New Pilot Projects

A demonstration project similar to one we developed for Kennedy Airport has commenced on three piers in New York and the groundwork has been laid for the commencement of a pilot project on the San Francisco waterfront which we expect will be in operation by March.

We believe these new pilot projects will demonstrate to the maritime industry that the security measures we are advocating are (1) highly effective in curbing theft, and (2) not unreasonably expensive for the industry.

Let me give you a report on the pilot project which Treasury initiated with the cooperation of the Airport Security Council at Kennedy Airport.

In the year preceding that pilot project, airlines operating at JFK reported 425 instances of theft and a loss of merchandise having a total value of $3.3 million. In the first year of the pilot project, the number of instances of theft reported by the airlines declined by approximately 28% and the dollar value by 69%. The results for the last six months are even more encouraging--119 instances of theft of cargo having a total value of $276,000, a further reduction of 22% in number and 44% in value. I must point out that these figures were obtained by the Airport Security Council and have not been verified by Treasury. However, it is clear that there has been a substantial reduction in theft loss.

This improvement in the loss picture at JFK was achieved at a minimum cost and with a minimal effect on facilitation by employing common sense principles of cargo and documentation security. Some of the procedures instituted are:

1. High-value and broken-package merchandise is transported from aircraft to terminal in locked trucks.

2. Terminal operators are now required to store such high value and easily pilfered cargo in a secure area.

3. A new cargo release form is used which provides for authentication by the broker of the person authorized to pick up merchandise.

These simple, but effective measures are now being required wherever appropriate by means of regulations effective April 1, 1971.

In connection with the topic of cargo theft statistics, I should mention that Treasury regulations require that discrepancies in manifested quantities be reported to Customs (on U.S. Customs Form 5931 or by submitting amended copy of manifest). Information from these reports is then compiled by computer. This system, which is still being refined, will produce statistics which should enable us to pinpoint the specific piers, terminals, or warehouses, and the types and values of merchandise which are most involved in cargo theft.

However, a recent review of this reporting program

Industry, which has the prime responsibility, can combat cargo theft by improving its own physical and procedural security and by accurately reporting losses which occur.

While the Treasury program focuses primarily on security of international cargo, it should also result in better security for the large quantities of domestic cargo flowing through and temporarily stored at the same airport and seaport facilities.

The immediate, vital need is the passage of Treasury's proposed legislation--the Customs Port Security Act. This legislation has received the backing of knowledgeable industry groups, including the Commerce and Industry Association of New York, the American Importers Association, and the Transportation Association of America. We are hopeful that hearings will be held soon by the House Ways and Means Committee and the Senate FinanceCommittee.

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reveals that in New York carriers are filing inaccurate or unsubstantiated reports in many of the cases checked. This indicates a disregard of the reporting requirement by some carriers. We have directed a priority effort to correct this situation. I am confident that once management becomes aware of the necessity of making accurate reports, we will begin to obtain the essential information which this program was designed to provide.

Importers, brokers, and insurance underwriters could help us greatly, as well as obtain a refund of duty paid, by filing or insisting that shortage reports be filed when invoiced or manifested merchandise is not received.

An Action Program

I can assure you that this is an action program which has made maximum use of the limited funds allocated to it. It also ties in with two top priority concerns of President Nixon--the drive to stop smuggling of narcotics and dangerous drugs into the United States and the campaign against organized crime.

If the drug smuggler can remove packages containing narcotics before entry is made, he does not have to fear the more rigorous inspection of cargo which Customs has implemented in order to reduce the influx of illegal drugs into this country.

For organized crime, cargo theft has become a profitable business, especially at large deep-water ports and at major airports. For example, there was considerable evidence that organized crime was responsible for the substantial losses experienced at JFK before the institution of the pilot project.

THE CONFERENCE BOARD

AMERICAN COMPETITIVENESS IN THE WORLD MARKET PLACE

WALDORF-ASTORIA
New York, New York

ADDRESS OF

THE HONORABLE JOHN B. CONNALLY
SECRETARY OF THE TREASURY

of

January 21, 1972

THE CHAIRMAN: Ladies and gentlemen, the Honorable John B. Connally, the Secretary of the Treasury.

(Applause)

SECRETARY CONNALLY: Thank you very much

Please be seated.

Chairman Cook, President Trowbridge, Senator Percy, other distinguished head-table guests, ladies and gentlemen:

I had a few remarks that I wanted to make, but I find now that I must take whatever time is allotted to me in defense of the introduction.

(Laughter)

"Tex", I suppose I should say, "Thank you". But when you start off talking about being orator, debator, actor politician, I would say that is an effective way to put a fellow on the defensive.

I really don't think -- I probably should not respond in detail to that introduction. I suppose the safest thing for me to do is to let it stand, without comment, or else I really would have to spend most of my time explaining it, if not defending myself from it.

Seriously, I am grateful to you. I know you did it in high good humor, and the audience responded accordingly. I wonder -- if you ever get out of being the Chairman of General Foods, I ought to send word to

Bob Hope that he better move over!

(Laughter)

You are a man with an instinct for humor, I can tell that.

Peter, I hope you don't carry any messages back to the White House about some of the things Mr. Cook said. Maybe we can burn some of his script. I assume these microphones are here for effect, to do something here for my ego. Surely, they can't all be live.

(Laughter)

Now, at this point, after my speech yesterday to the Tier One group in Washington, and the press accounts that I read of it. I think I am very much like I was, Tex, during the war, and that part of the story is true I rather think, in the presence of so many distinguished American business leaders, that I, perhaps, should once again holler, "Hey, Rube.. I need help."

But, because you are basically and instinctively courteous and kind people, perhaps I can get on and off the podium today, at this luncheon, without too much difficulty.

I will try to address myself to some of the problems of this conference, and do it in such a way that, hopefully, I can explain some of the attitudes of the Administration; some of the hopes and the aspirations, not only of the President, but of the Country itself.

If there is a theme of this particular Conference-Board Meeting, I suppose it is, "Competitiveness in the World Markets".

I think we have to start off, in any consideration of where we are today, in world markets, by trying to understand where we have been in the past 10 years. Much of what I will say to you today, you already know, I am sure; but, perhaps by bringing several thoughts together, blending them with each others, perhaps different emphasis can be placed on some of the problems that we face. Perhaps I can best illustrate the dedication and the desire of the President and this Administration to try and help solve some of the problems that beset this Nation, by so doing.

We can start off, when we talk about competitiveness in World Trade, by admitting that in 1971, we had a deficit in our World Trade. This just happens to be the first time, in 78 years, that this has happened; the first time since 1893 that we have had a trade deficit.

That, in itself, is bad enough; but we could overlook it, perhaps, and explain it in some measure, if it were not for the fact that over the past decade, we have been on a declining trend which led us to believe that such was going to happen, and that such was inevitable unless we faced up to the reality; unless we turned around and realized that the concept and the belief that

we had in the United States--that we had an infinite capacity for largesse--that one day must end. It must end. To realize that, we had to some day face up to the fact that we had limited resources that were available to this Nation, notwithstanding the fact that it was the largest; that it was the most active; that it was the most progressive; that it was the most productive in the history of the world. We have come to that day of reckoning.

In this Land, the largesse that resulted in gains for other nations, and drains for our own, now presents itself in stark reality. I think in the context of that picture, that we have to also admit, overnight. that we are living in an entirely different world from what we were living in last July, last August, and last September. We are living in a different world.

What has happened since then?

A great many things have happened, and a great many more will happen, but it takes a little time. It takes a little patience. It takes a little confidence. It takes considerable trust. It takes enthusiasm, and dedication, and belief, and faith. Faith in ourselves; faith in our System; faith in this Nation; faith in our own capacity to do whatever we make up our minds to do.

On August 15, this world in which we live, this

economic world that is part of this Nation, changed for all time--in my judgment. It was not a temporary thing. On that date the President of the United States showed remarkable courage, for which he has been given little benefit, and little applause. But he showed remarkable courage in facing up to problems that he felt this Nation, and this Free Enterprise System, and this Free Society faced. He imposed wage and price controls -- a freeze, a complete freeze, for 90 days, as you know.

He took a number of other measures; recommended great changes in the tax structure of the Nation, in order to encourage expanded economic vitality in the Nation; to create jobs for people; to put this Nation back to work.

He suspended the convertibility of the dollar, and he set adrift the entire International Monetary System, without knowing, really, where the shoreline was, or at what point we would reach landfall.

There was no course by which he could chart himself. It had not been done before. He was, indeed, treading in strange waters. But he did it because he had the courage to do it. He had the capacity to understand the problem, and he had the courage to face up to it. He had the courage to send some of us around the world, saying to our Trading partners that, for 25 years, the United

States had given of itself, of its manpower, of its resources of its strength, of its vitality, of its compassion, and of its care, in order that we might rebuild demolished and destroyed cities and nations; in order that we might hold out hope to people-without-hope, without-promise. How well we have succeeded, and how proud should be this Nation and its people, because we did do something that no other Nation has ever done. We raised nations from the ashes of defeat to become great competitors, in one generation. It is significant that, during the past decade, the export of manufactured items produced in the United States in the last decade, the last 10 years, increased by 110%.

But, during that same period of time, German exports -- a short time before a "conquered" Nation -- increased by 200%. Canada increased by 280%. Japan has now reached the point of being the second greatest producer in the Free World, the non-Communist world -- second only to the United States. Japan increased her export of manufactured items, in that same period, by 400%.

Now, this should give us something to think about. It should cause us to try to analyze where we are, and what we are doing in terms of economic strength, and economic growth.

All of these things, the President faced up to on August 15.

We recognize that major changes had to occur, not only in the Monetary field, but in the Economic field. Some of them are still in the process. It is not all done. The Government is not satisfied that we have done all that we can do, but we are also satisfied that the Government cannot assure the economic vitality of this Nation.

We are certain that Government, alone, cannot provide the answer for American Business and American Labor.

I have been chided by your distinguished Chairman, somewhat, for jumping on Business yesterday. I really did not jump on Business. I just said, when we changed the Depreciation Schedules in the Treasury Department -- for which we caught some considerable flack, I might add, in the Congress -- we were assured by the Business community that that was not what they wanted, or needed. What you wanted was Investment Tax Credit. If you got that, everything would be all right. All I said was, we went back up and got you that. But we found out that did not solve things, either, and it wouldn't. We did not expect it to, but we did expect it to have a little more impact than it has had.

I constantly hear of the uncertainties, and Tex said, "Well, we think we are entitled to question some of

the things that are going on in the world." And he is right.

He mentioned specifically -- I hope you will forgive the personal allusion, Tex -- he mentioned the West Coast Dock Strike. That is an uncertainty. It is an unconscionable uncertainty. But the President addressed himself to it yesterday and said he was going to send Legislation to the Congress, asking Congress to act on it because there is one certainty in our midst, among many others. That is that Labor has reached the point in this American Society where it can no longer thumb its nose in the face of the Public and demand for itself everything that it can possibly grasp. They have to be responsible.

(Applause)

They have to be responsible, just as American Business has to be responsible. I, in my remarks yesterday did not intend to be critical of Business, but I felt free to do so. Frankly, you always feel free to criticize your friends.

(Laughter)

But I am not going to admit that I never will be critical. I am just going to take out a little disclaimer now by saying that I always feel that you have a right to be critical of your friends; to give advice -- unwanted

advice; unsought advise -- to your friends. They don't all have to take it but, in that posture, I appear here today. I really want to give you a little advice. You don't have to take it. I don't expect you to, but at least, I will have the satisfaction of having said it.

Every now and then, one of the small compensations that you get out of occupying this job is, you get to say what you think.

(Laughter)

If you don't get that, why, really, it's not worth it!

(Laughter)

But, in all seriousness, we do, indeed, face some major problems. Let me assure you that while we are worrying about many of the problems that plague us today, and many of the uncertainties that surround us, there really can be no doubt about what the basic thrust, the basic intent, of this President, and this Administration, is. So far as the Pay Board is concerned, so far as the Price Commission is concerned, there is doubt -- and understandably so -- in the minds of people, about how long it is going to last. "Are you really going to make it work?"

Well, the answer to the first - --"how long will it last"-- I don't know. It is going to last until it

does work. That much, you can be sure of.

We did not embark on this for practice. The President did not take these actions on August 15 just to make a trial run, or because he thought it would just be interesting to play with it. He took these actions because he thought it was absolutely essential to try to preserve this System under which we operate.

He felt it was absolutely imperative that he, as President of the United States, express a concern in the most concrete terms that he could. No man -- no man -- however strong, however courageous, wants to assume the potential political liability of imposing on a Society with a declining war an absolute freeze on its economy; but he did it.

He basically does not like wage and price controls, and he has told you so time and again. Neither do any of the rest of us. But the truth of the matter is that the American economy had gotten out of kilter so radically that drastic action was necessary, and drastic action you got. And drastic action you are going to keep, until it works.

Everybody says, "Well, what are you going to do about Labor? Are you really going to make the Pay Board work?"

Yes, the Pay Board is going to work. The Price Commission is going to work.

What is the alternative?

Have you viewed the alternative?

American Labor is out to get what it can. It is out to represent its members. It is out to represent its interest, just like you are supposed to represent the interest of your stockholders, of your shareholders, of your Directors. You want to do the best job you know how.

But, frankly, there comes a time when we all have to give, in the public interest, and the time is now. We can no longer endure the total and complete selfishness of any segment of this Society, and we are not going to. It is just that simple. Everybody has to exercise a degree of responsibility if we are going to preserve this System.

Now, do we want to preserve the System?

I would think so.

What is the alternative to it?

What is the alternative to the Pay Board working?

Have we really thought about that when we asked these questions?

Suppose the Pay Board does not work?

Suppose the Price Commission does not work?

What do we go back to?

Rampant inflation that was running at the rate of

7% in the Fall of 1968?

Surely not!

We cannot endure that. We know we can't do that. We know we priced ourselves out of the World Markets today. We know, in many cases, we are non-competitive.

Why?

Because of what we permitted to build up here. We have built here a magnificent structure of a Society of people, and there is a lot to be proud of. We should not apologize for it, nor should we fear it. We have to recognize it for what it is. With all its weaknesses, with all its frailities, with all its inequities, it has, at least, produced more for more people, to enjoy more leisure time, to have more things to eat and to wear, to have better housing, to have higher wages, than any other people on the face of the earth since the beginning of time.

It has done all of that.

So, what is basically wrong with the System?

When you look around, when you analyze what is happening in this world, you see the Totalitarian Governments today realizing that they are not keeping pace; that they cannot supply for their people even the essentials — much less the luxuries — that this Free Enterprise System has provided for American citizens.

So they are gradually moving.

So they are moving-to the extent that their Totalitarian System permits— to try to provide some incentive, to provide freedom for the individuals to exercise their initiative, their imagination, and their ingenuity-- which has been a part of this System since its creation.

They are approaching us.

Why should we now turn back?

Why should we expect to provide some type of Socialistic umbrella in this Country, in order to make a Free Enterprise System work?

It can't be such. We don't intend to do such. We don't operate on the theory that Government, alone, has the answer to all of your problems or that Government, alone, can supply the answer to all of the problems.

Government is a responsible part, and Government expects to exercise that responsibility. But Business is a part, and Labor is a part of this triumvirate, and each must willingly -- or unwillingly -- meet its responsibilities if, indeed, we are going to be competitive among the peoples of the world.

Now, we have a great many things we have to worry about. We need to look at a lot of our Statutes in Government.

We need to look at our Anti-Trust Statutes, and see

whether or not they should be applicable to American Business at all, in our overseas operations. It is a good question -- whether or not they should.

We have to re-analyze where we are. We have to look at American Business.

Just a few short years ago, we had it all:

We had all the vitality; we had all the strength; we had the large edge in technology, in innovativeness; but that is gone. That day is gone. We are now looking within the Seventies, in this decade, where there are going to be a number of great powers. Russia will certainly be one. China will be one. Japan already is one Western Europe is already one. We are already one. There are five of us.

Now, we are emerging from an era in which we were the dominant, the predominant force, economic force, in all the world. But we are one of several now. We are playing by new rules. The old ones are gone, and they are not going to be restored. They are not going to be re gained, and we are going to have to adapt, and one of the ways we are going to adapt was, I think, highlighted by the President's message this week, on Expropriation.

He said that every Country has the sovereign right to take for the public good, and in the public interest, such enterprises as it wishes to take.

He questioned the advisability of expropriation under any circumstances, but he said, "If, indeed, you take by expropriation, the interest of American Business, then we will insist that that interest be promptly compensated for."

This is a new approach. This is a new realization of the new rules under which we are going to have to operate.

We are going to have to operate under a great many rules that we talked about in ninety days of tough negotiations in the International Monetary field, and in the Trade field. Don't believe for one moment that the Agreement that was reached at the Smithsonian on the 18th day of December, settled for all time, our problems, because it didn't. We made great strides, beyond any doubt but, believe me, there is much yet to be done in the International field. Let me also assure you that the way to do it is not through a Burke-Hartke Bill.

This Nation cannot go back to an era of protectionism.

(Applause)

We cannot go back to an era of protectionism. That is not the way we can live in this world. Just the reverse has been true. We have to recognize that we have to expand the frontiers for American products, and American commodities. We have to -- rather than closing doors to other nations, and to other problems -- insist upon greater and fairer trade.

Now, the truth of the matter is that we permitted others to take advantage of us over the last several years. There is no doubt in my mind about that.

Now, that day is gone. That is part of the new rules that we are operating under. We are not going to insist upon an advantage over anyone, least of all the Developing Countries. But we are going to insist among our peers, among our equals, that American products be accorded the same rights, and the same freedoms, and the same privileges that we have accorded the products of our Trading Partners around the world.

(Applause)

Only by so doing -- only by so doing -- are we going to be able to quell the rising demand of American Labor, and of American interest otherwise, that insist that we have to erect a wall of protectionism and tariffs around the United States.

This is part of why the President did what he did on August 15, because he realized that if he did not move -- and move swiftly, and strongly, and surely -- to bring about rectification of some of our difficulties, that we were indeed going to be faced with an insatiable demand that we do erect walls of tariffs and protectionism.

So he moved, and he moved in the right direction, and he moved in the right way. We cannot now permit,

however well intentioned, the thought to prevail in the Congress of the United States, in support of a Bill such as the Burke - Hartke Bill, that we can protect and isolate ourselves from the world, because we cannot, and we should not. Because, believe me, there could be no isolationism, so far as the United States is concerned, because, for all the problems that I have partially recounted for you today, nevertheless, we are still the strongest Nation in the world, with the greatest productivity; with the greatest vitality; with the greatest strength of every type.

We, alone, of all of the Nations in the non-Communist world, we alone have the capacity, and the ability, to provide a nuclear shield; a shield of military protection for the rest of the Free World.

We, alone have the capacity, and the ability, and the compassion, and the concern, to try to provide the political leadership of the world.

We, alone, in the non-Communist world, have the capacity, and the strength, and the vitality, to provide economic leadership for the world.

These are responsibilities; these are roles which we cannot lightly cast aside, and which we should not cast aside because, believe me, there is no one - - no one -- capable of stepping into our shoes. If, indeed, we cast aside the role of leadership in the Political field, in the Military field,

in the Economic field, we will indeed create a vacuum in the Free World that no one else can satisfy in the Free World.

This is an awesome responsibility, but it is also a very great opportunity. It is a great opportunity to fulfill the hopes, and the desires, and the dreams of people everywhere who want to emulate what we are in the United States.

We have great concern here at home. We have dissatisfaction. We have questioning of our own methods and our own ways and, yet, there is no one, in any Country or any Land, that knows anything about this Nation, that doesn't want to come here; that doesn't want to be like us. They want that freedom. They want that spirit. They want to feel that they might once during their time here, have the privilege of using their own brains, and their own hands and their own hearts, and their own minds, to create and to build something of which they can be proud.

That is our heritage, and we have to be true to that heritage. We have to live up to that heritage. We have to expand this hope. We have to expand this opportunity, that others might enjoy it. We cannot do it by turning inward. We cannot do it by being afraid; afraid of anyone else; afraid of any other Nation; or afraid of ourselves.

The role of decision is a responsibility of

leadership. We have that role of leadership. We have to assume the burdens of decision and hope that we are right; and Government is going to be your partner in trying to provide that kind of a future, under the new rules by which we live.

Thank you very much.

(Applause.

THE CHAIRMAN: Thank you very much, Mr Secretary, for making us feel that every man and woman in this room is included in the "we" that you kept referring to, in terms of reminding us of what we have; what we must do; and what we can do.

You can see why this man will never have to say, "Hey, Rube".

Thank you again.

(Applause)

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FOR RELEASE AT 12 NOON (E.S.T.)
MONDAY, JANUARY 24, 1972

PRESS BRIEFING ON THE BUDGET

Department of State Auditorium
Washington, D. C.
Saturday, January 22, 1972
10 a.m.

John B. Connally, Jr.
Secretary of the Treasury

jointly with

George P. Shultz
Director, Office of Management and Budget

accompanied by

Caspar W. Weinberger
Deputy Director, Office of Management and Budget

- - -

MR. LAITIN: May I have your attention for a moment, please? Everything said at this briefing is on the record, as is customary with the OMB budget briefings. But just to remind you that everything, including films, is embargoed until 12 noon, Eastern Standard Time, Monday, January 24th, just as the budget itself is.

There will be books of charts, some of which you will see here during the briefing. They will be available here to the accredited press immediately after the briefing.

If you have any technical questions later in the day or tomorrow, my office will be open to receive them. The telephone numbers are 395-4854 and 395-3763.

We will have professional staff standing by to help answer questions, both today and tomorrow. Some of you, I imagine, have my home telephone number. If you have any questions on revenue estimates or any questions directed to Treasury, Mr. Tom Leahy will be standing by after two o'clock today and tomorrow. His telephone number is 588-3356.

Director Shultz and Mr. Connally and Deputy Director Weinberger will be here momentarily.

DR. SHULTZ: Ladies and gentlemen, we will proceed first with a brief opening statement by the Secretary of the Treasury, and then I will talk from some charts on the budget. After that, we will take your questions.

Mr. Secretary.

SECRETARY CONNALLY: Thank you very much, Dr. Shultz.

I have a very brief statement which I will read from this position if it is convenient. If you prefer I will be glad to stand. But if this is all right, we will do it here.

The revenue estimates before you show a moderate gain in tax receipts in fiscal 1972 and a large increase in fiscal 1973. These increases are the result of a growing economy. The total for the current fiscal year is $197.8 billion, $9.4 billion above last year. This increase is only about half of what we would expect based on the gains in the economy; the difference, of course, is due to tax reductions.

Total 1973 revenues are estimated at $220.8 billion, a gain of $23 billion. This gain is just about what we would expect from the growth in the economy. The personal and corporate tax cuts in fiscal 1973 are offset by increases in social security taxes, which are needed to finance higher social security payments.

As the budget shows and as the Economic Report will explain in more detail next week, we expect the Gross National Product in this calendar year to be up about 9-1/2 percent from

1971. Personal income will be up 8 percent -- to $924 billion -- and corporate profits before taxes are estimated rise 16 percent to $99 billion.

I want to make it clear that despite the substantial gains in revenues, very large actual deficits are expected in the budgets for both fiscal 1972 and 1973. These deficits must be viewed in the context of the overall size of our economy and the fact that we are already passing through the peak deficit period. No one can be happy about deficits of this size. Yet they must be analyzed in the light of our economic trends.

Although we have had very robust gains in the employment totals in recent months -- 1.7 million persons added to the payrolls since June of last year -- the unemployment rate is still in the neighborhood of 6 percent. And that is a rate that is not acceptable to this Administration. To try to balance the budget by cutting spending or raising taxes would clearly make the unemployment situation worse. On the inflation front, we are making progress, and conditions are favorable for continuing that progress.

In these circumstances, the deficits in our 1972 and 1973 budgets are bearable. They are an inevitable price for what we want to do. They are, in fact, a positive part of our program that is designed -- along with an expansive

policies -- to put a significant dent in the unemployment rate in the coming year.

At the same time, it would be inappropriate either to cut taxes or increase expenditures further and thus to add to the deficit proposed for fiscal 1973. The expenditure total is already about equal to the revenues that the present tax structure would produce at full employment. Expenditures should be held to that level to assure that the deficit shrinks and disappears as we reach our economic goals. We cannot escape the need to discipline Federal spending.

A deficit of significantly greater magnitude than proposed here would bring back inflation. It would upset the relative stability achieved in the financial markets -- and thus lead again to sharply higher interest rates. It would undermine the price-cost stabilization program. In short, the budget deficit proposed for the coming fiscal year is large enough to lead the fight against unemployment but not so large as to endanger the battle against inflation.

Thank you very much.

(The table referred to follows:)

Projected Changes in Budget Receipts
Fiscal Years 1972-1973

	(In billions of dollars)	
	Fiscal 1972 from Fiscal 1971	Fiscal 1973 from Fiscal 1972
Revenue changes traceable to:		
Economic growth	+17.6	+24.0
Tax Reform Act of 1969	- 2.7	- 2.5
Revenue Act of 1971	- 4.4	- 2.5
Changes in Depreciation Regulations	- 3.0	- 0.2
Social Security changes, enacted and proposed	+ 2.1	+ 6.4
Other changes	- 0.2	- 2.2
Total	+ 9.4	+23.0

DR. SHULTZ: Thank you, Mr. Secretary.

I would like to show some charts and make some remarks, first about some overall dimensions of the budget, and then about aspects of the composition of the budget.

First, (in Chart #5,) you can see the overall totals. As Secretary Connally said, the objective is to provide a budget that gives strong thrust to the economy, that takes leadership in expanding the economy and creating more jobs.

So we have a large deficit, $38.8 billion, in fiscal '72 and a continued large deficit of $25.5 billion in fiscal '73 -- but one that is one-third less than in 1972.

We believe unemployment will be coming down, partly for reasons of the strong thrust in the budget, and partly because the very heavy draw down in the number of military-related jobs is fundamentally behind us. You can see (in Chart #35) how strong that draw down has been in the last three years. We continue down a little bit between '71 and '72, because there will be some further reduction in the spring of this year.

Basically, defense-related employment is leveling off. This basic problem, which has caused us so much difficulty over the past three years, is behind us now.

At the same time, as we have worked at the problem of winding down inflation, you can see (in Chart #17) that real progress has been made. These figures were put together

before we had the Consumers Price Index number released yesterday. If we added the December figure to the last column and made the column August to December, that column would be 2.5 percent, rather than 1.7 percent. Even so, you can see that we do have a definite downward trend in the rate of increase in prices as measured by the CPI. Of course, yesterday's release of the GNP figures showed the GNP deflator down more or less correspondingly to this.

As Secretary Connally said, while we want the economy to expand and are providing a budget to do that, we always must be conscious of the need to maintain a discipline on outlays so that as we move toward full employment our budget is not out of control.

(Chart #19) shows full employment receipts, as measured against full employment outlays. As you can see, they are roughly in balance in fiscal '73.

You can see (in the new unnumbered chart) what has been happening to outlays in the past few years. From '65 to '68, outlays increased at a rate of about 17 percent. In the past three years (from 1969 to 1972), outlays have been increasi at a rate of about nine percent. The increase estimated from fiscal '72 to fiscal '73 is only about four percent.

This is evidence of the determination to keep spendin under control. As we project the budget into the future, we mu not put ourselves in a situation that can't be dealt with

of runaway inflation that resulted from the full employment deficits of the late 1960's.

I think there are a number of developments that show up very sharply in the budget being presented by the President on Monday. One of them that is, as he says in his budget message, "as remarkable as it is unremarked," is what has happened to individual income taxes. This chart (#9) compares what would have been paid at the tax rates prevailing at the time the President took office with what has been or will be paid in individual income taxes under prevailing tax rates

The reduction of $22.4 billion is a way of returning power to people in the most fundamental sense. It is philosophically on a par with the President's proposal for revenue sharing. It is not revenue sharing with State governments or local governments, but revenue sharing with the basic unit of government, the individual and the family.

This, we think, is a very dramatic development. I think it is well to try to think ahead about what this means, because -- as we project full employment revenues and the outlays based on programs that we have in place and those the President has proposed -- we see a somewhat different picture than the one that has usually appeared. Typically, as you look three or four or five years into the future, you see large openings for new spending or tax reductions, generated by the present tax system.

You don't find that now. As we project out to '76, there is, in effect, no budget opening. When we get to '77, there is a budget opening of about $20 billion -- attributable almost entirely to a scheduled increase in social security taxes in 1976. In the past it has always been a question whether that rate would go into effect at that time.

For all practical purposes, the situation we are in is one in which government is very much on the spot. Whenever a new program is proposed, that program must meet the best of whether or not it is important enough to warrant taking something out of the budget in order to put something new in, or important enough to go to the people of the country and say, "You should pay more taxes in order to have it."

Turning from the overall picture to some of the components, a prime objective in this budget, as in the President's past budgets, is to provide a strong national defense as an essential underpinning to the strategy for peace. You can see (in Chart #26) that the budget authority for defense has the largest increase in terms of budget authority of any element in the 1973 budget. It goes up by about $6-1/2 billion. As shown (in Chart #28) the budget for defense-related R & D, goes up from $7.7 to $8.5 billion. Shipbuilding authority has been on a steady increase. (Chart #29.)

There are some severe management problems within Defense that are created by our success in raising the level of pay in the military so that pay levels are more consistent with the idea of a voluntary Armed Force. To achieve this objective, the Defense Department must compete for labor in the labor market and pay, more or less, market rates. The effect of that is dramatic in terms of Defense personnel costs. We now have a situation where about 57 percent of the Defense budget is devoted to personnel cost. (Chart #34) We can see rather dramatically the impact of this (in Chart #30). If you said to yourself, what does a billion dollars buy you in terms of manpower, the answer would be: at 1964 rates, 219,000 people; at 1973 rates, 105,000 people, less than half. I would say that from the standpoint of the management of our defense and security

forces, the problem of productivity, of increasing output per man hour, has to be put down as a primary one.

Turning now to the subject of research and development more generally, this (chart #40) shows you some of the trends that are involved here. NASA spending, of course, has come down, and that fact has tended to dominate any overall picture of R & D spending until now. The whole NASA budget, as you know, is counted as research and development. The overall total, however, obscures the fact that, as I mentioned earlier, Defense R & D is now rising and -- very significantly -- civilian R & D support from the Federal budget has been in a steady rise. That will continue with new initiatives that are described in the budget document and will be the subject of a special message later on. The civilian R & D spending has risen by about 65 percent since 1969. I might say that we have been more and more conscious of the civilian uses of Defense R & D and of trying to have Defense R & D serve both civilian and Defense purposes.

That is another initiative and strong component of the budget.

The budget obligations for R & D in total will go up to $17.8 billion in Fiscal 1973.

Let me turn now to a different aspect of the budget. Here is the traditional pie chart. (#6) Probably you wonder why we didn't start with it. If you look on the

"Where it goes" side, you see a rather dramatic development. In Fiscal Year 1968, the proportion of the dollar going to Defense was 45 percent, the proportion going to human resources was 32 percent. Those proportions are exactly reversed in Fiscal 1973. There has been a massive shift in budget priorities that goes along with the reduction in tax rates that returned that large sum of $22 billion to people.

This (chart #49) shows the overall increase for human resources programs. I think it reinforces this point to call attention to the fact that this year -- for the first time -- the Defense Department's outlays are not the leader among our departments. Outlays in the Department of HEW will exceed outlays in the Department of Defense.

Looking at some of the components of the human resource picture, federal outlays for the elderly, as you can see (in chart #57), have been rising and continue to rise.

We continue to have discussion about food stamps. Early in his Administration, President Nixon made a commitment in this regard. I think this (chart #66) shows that there has been a tremendous effort to fulfill that commitment.

The same thing could be said in the area of child nutrition. I think this (chart #68) also suggests to us an important problem or issue in the President's commitments to provide federal lunches, breakfasts, and feeding for needy children. As you can see by this chart, the distance between total expenditures and those for the needy seems to be increasing. The issue is: do we want to transform this program from one that is directed to the needy to one that is directed toward the middle income, and toward the rich?

The President has been trying to focus this program on the needy, but not with complete success, as you can see by this chart. At any rate, the outlays have been rising very rapidly.

Outlays for education and manpower training have been rising very rapidly. (chart #67) Veterans' benefits and services are rising. You can see the components of that increase (in chart #72).

We turn now to a different sector of the budget. (Chart #76). As you know, the President has had a great concern about crime. Direct federal outlays and aid to State and local government for the reduction of crime have been rising and will continue to rise.

It is hard to measure output in many areas of the Federal Government, but we can have some measure of output in the control of crime. This (chart #77) gives you some notion of what has been happening in that regard as far as indictments, convictions, and special types of cases are concerned.

The President has also been very concerned about the rise in the use of drugs. As you can see, (in chart #64) the federal effort in this area, when he came into office, was minimal. It has increased strikingly on both the enforcement side and the rehabilitation and education side. Again, trying to get some rough measure of output, this (chart #65) gives you some indication. It is not an adequate display, but it is a picture of arrests for drug violations and of seizures of illegal narcotics.

There has been a great initiative in the past three or four years in the area of the environment, and this shows up in our budget outlays. (chart #85) shows the area of pollution control and recreation, while (chart #89) shows the investment in water resources. You can see the trends that were in effect and what has happened to them.

To turn to still another area of effort of the Nixon Administration, (chart #79) shows the outlays for civil rights activities, classified in terms of enforcement activities and of minority assistance of various kinds. You can see how sharply the commitment, as measured by outlays, has risen.

In an area like civil rights, you first have to ask yourself, not what to tell other people to do by way of enforcement, but rather what to do yourself in your own enterprise. This chart (#99) shows what has happened in the Federal Government. It measures the number of minorities in the various grades from November, 1969 against those in the same grades in May of 1971.

Don't misinterpret this chart. It doesn't mean minorities are getting all of the jobs. The numbers are a percentage increase measured on the basis of how many minority persons were employed to begin with. The numbers are thus a reflection of how few were employed when we arrived, as well as the extent of

the effort that has been put in since.

These charts will be available to you after the briefing, as well as charts on many other aspects of the budget.

Let me close by coming back to where we started (Chart #5) The budget outlays for 1972 and 1973 represent a strong commitment to expand the economy, to create more jobs, and to deal effectively with the unemployment problem. At the same time, we must have an eye on the long view and realize that we must maintain control over the rise in Federal outlays. I think that this (new unnumbered) chart suggests that we are trying.

You might say these days, when we talk about putting a cap on spending, that what we are really talking about is the Cap Weinberger effect. Cap has been working very diligently at holding down spending, and we have at least some results to show for the effort.

I think we might now turn to y our questions.

QUESTION: Mr. Shultz, what assumption are you making for this Gross National Product in fiscal 1973?

DR. SHULTZ: Well, the Gross National Product estimate that is most relevent for the fiscal 1973 budget is the GNP estimate for calendar '72. That is the year in which the income is generated, which relates to the basic revenue estimate. It is calendar '72 that we are talking about fundamentally, and our economic assumption is a GNP average of $1.145 trillion.

QUESTION: But you estimate receipts for revenues for Fiscal '73. You must have had an estimate also to GNP for Fiscal '73. Could you give us that?

DR. SHULTZ: The primary base for estimation is calendar year 1972. That is when corporations will generate the profits and individuals the income on which the taxes will flow into the Treasury as the year goes along. Calendar year 1972 is our primary basis for estimation, but it is true that the first six months are important in determining withheld individual and social security taxes. But we would project a continuing rise through Fiscal 1973.

QUESTION: Mr. Shultz, doesn't this $8.1 billion full employment deficit for Fiscal 1972 blow out of the water the whole full employment concept?

DR. SHULTZ: It would if we simply sat back and said, "All right, let's just continue and go to a $12 billion deficit

in '73, and let it go." This happened in the late 1960's; but we have made a strenuous effort to pull outlays back below full employment receipts and to maintain a sense of discipline in working out the budget decisions for outlays.

QUESTION: Mr. Shultz, isn't that likely, then, when Fiscal '73 begins, to prove deflationary at that time, when you go from an $8 billion deficit almost to a balance?

DR. SHULTZ: The way in which the full employment principle is supposed to operate is that when the economy operates at a lower rate, there should be a larger deficit. As the economy improves, and begins to move back toward full employment, the deficit should shrink. Federal stimulus should decrease so that when the economy gets to full employment, we are not back in the situation that we had in the late '60's which meant that the economy had to be put through the wringer in order to deal effectively with inflation. We would expect that the economy will expand and that unemployment will fall. As that happens, we don't want the medicine that we have taken here -- and as the Secretary said in his statement, we are not happy with this big deficit, but we think it is necessary medicine to take -- to become addictive. We want to withdraw that medicine as we get well.

QUESTION: Mr. Shultz, what is the estimated administrative deficit for Fiscal '73 as opposed to the unified deficit?

DR. SHULTZ: You mean the Federal Fund deficit, not including trust funds. I believe it is about $45 billion. That is the number that we will be discussing with the Ways and Means Committee in about a week when we talk about the debt ceiling.

QUESTION: What unemployment rate are you projecting for Calencar 1972?

DR. SHULTZ: We expect that unemployment will be gradually coming down. By the end of the year, total unemployment should be in the vicinity of 5 percent. That is our economic assumption. We hope that unemployment will be lower than that, but this is our expectation.

QUESTION: Are you speaking of the fiscal year there?

DR. SHULTZ: I am talking about the calendar year. By the end of calendar 1972 we should be in the vicinity of 5 percent. If we project the rate into the first half of '73, we would see it continuing to decline.

QUESTION: Would you discuss some of the reasons, sir, that the budget deficit projected in the fiscal '72 budget turned out to be by a factor of about three to look in the actual '73 calculations?

DR. SHULTZ: For some reason we thought somebody might ask that question. So I have a little tabulation. Joe Laitin can provide you a detailed statement of all of the small ups and downs. Basically, when you go from the $11.6 billion deficit which we projected a year ago, to the $38.8 billion that is now estimated, you have a difference of about $27 billion.

Early in the Congressional session, the Social Security tax change that had been scheduled for January 1, 1971, was slipped to January 1, 1972. This accounts for a decline of $2.6 billion in revenues. The tax proposals that the President made on August 15 -- which were enacted with some changes, but more or less as he proposed them in December -- reduced revenues by $4.4 billion. Thus a total of $7 billion is attributable to tax reductions.

Then, as you all know, our projection of how vigorously the economy would expand proved to be too optimistic. In addition to that, the improved

measures of GNP, have been to revise downward. The lower than expected level of economic activity decreased our revenue estimates by about $12.9 billion, or roughly $13 billion.

Thus, revenue decreases account for $20 billion of the $27 billion difference in the deficits.

Now, turning to the outlay side, there have been a variety of uncontrollable increases. Unemployment insurance is a leading example and there have been others, which amount to about $6 billion. That brings you roughly to the $27 billion differential.

A second question, which I will put on your behalf, is "What happened between September, when we estimated that the deficit would be on the order of $28 billion, and now, when we estimate about $39 billion?"

On the receipt side we went down from around $205 billion to $198 billion. As a result of the new estimates of economic activity, the GNP revisions I have mentioned, revenues were reduced about $3 billion. A revision in our estimate of what capital gains taxes would yield caused a further reduction in revenues of about $2 billion. In September, we carried the import surcharge as being in effect for the full year. The President said it would be temporary and we didn't know how long temporary would be, but at any rate, we plugged a full year into our estimates. Through the efforts

of the President and the Secretary of the Treasury in the Smithsonian agreement, the import surcharge was eliminated in December.

That happy event cost us about $1.5 billion.

Finally in September we assumed a $1.0 billion deferral of the Social Security tax increase. This roughly is how you get $7 billion decline in revenues.

On the outlay side, the unemployment insurance law that the President proposed early in his Administration was passed by the Congress. This law, as you know, had a trigger mechanism in it relating to the duration of unemployment, and we believe that the trigger went off in January. In addition, we had the passage of the Magnuson bill. These changes in unemployment insurance raise outlays by $1.6 billion above the September estimate.

Farm price supports have increased our outlays estimate by about $600 million. Medicaid and public assistance estimates are up about $500 million. We are foregoing revenues of about $400 million, which we thought we would get on off-shore oil leases. Then, as you know, the President proposed a six months deferral of Federal pay. The Congress first supported it, and then turned around. That cost us about $1.1 billion.

Thus you have a total of about $4 billion on the outlay side. This $4 billion, plus the $7 billion decrease in revenues roughly accounts for the $11 billion differential.

QUESTION: Mr. Shultz, can I take it from what you said that Congressional appropriations above Administration requests have played little or no part in throwing your estimates of deficit off?

DR. SHULTZ: Just looking at the Federal funds and the appropriations side of the '72 budget, the Congress increased non-defense outlays by roughly the amount that the Congress decreased defense outlays, so that you have more or less of a wash there on that account.

Of course Social Security tax and benefit changes and the August tax proposals were, so to speak, joint efforts of the Administration and the Congress.

We are not taking the position that the change is a reflection of a wild spending Congress. We do feel -- and I know the President feels -- very unhappy about the sizeable cuts in the Defense budget last year. We will be pushing hard for full recognition of the defense needs reflected in this budget.

QUESTION: Mr. Shultz, you make a great point that the flattening out of the spending curve, and certainly your outlays for '73 would be less than '72. But the budget authority seems to go up more steeply in '73 than it did in '72. Is that a more accurate guide of future outlays in budget authority?

DR. SHULTZ: Budget authority is certainly an important thing to note. We emphasized it earlier with respect to the Defense budget. Budget authority is also an appropriate measure for areas like the environment, where the outlay impact builds up for several years after a project is started.

For that reason, I want to call to your attention the long-term picture, which is discussed in the perspectives part of the budget. It is very important that everyone recognize, as Congress starts its work on this budget, that we are in a highly constrained situation. We must maintain a sense of discipline so that our budget doesn't get out of control in future years.

I think the budget authority point you have made is a very good one. Thank you for calling attention to it.

QUESTION: Mr. Shultz, you are budgeting a great deal more in the next fiscal year for economic stabilization, about three times as much for the Price Commission, for example.

Does this indicate that your thinking is that controls will go well on into '73?

DR. SHULTZ: We have budgeted the Price Commission, the Pay Board, and the overall effort under the direction

of the Cost of Living Council to continue through April 1973, which is consistent with the duration of their authority. The funds were in there as an insurance policy. This does not mean that we expect all of the controls to end in April of '73 or that it is impossible that they might end before then. It is not intended as an indication of a terminal date. It is just a formal budget convention, pointing at that point in time.

QUESTION: Could I ask Secretary Connally a question?

Mr. Secretary, you have been delivering some rather stern lectures to both business and labor in recent days.

SECRETARY CONNALLY: They were not intended as such, but I will accept your characterization.

QUESTION: Do you, yourself, expect controls to remain on much longer than hitherto predicted?

SECRETARY CONNALLY: I don't know how long your question anticipates. I expect the controls to last until they do their job. And doing their job simply means they were imposed for the purpose of trying to slow the rate of inflation in this country to an acceptable level ranging between 2 and 3 percent by the end of 1972, to be a part of the program of the President's to stimulate the economy, to expand it to create jobs for the unemployed. Until that time occurs, controls will remain on. When that time will come I do not know.

QUESTION: Mr. Shultz, or Mr. Weinberger, what is the figure in this budget that would go to the continuation of our involvement in the Vietnam war? You have a figure of a little over two billion for military assistance with a note there is more allowed, but what is the whole Vietnam figure in this budget?

DR. SHULTZ: We haven't made any estimate of that. It is a very difficult thing to estimate.

Basically, one should be talking about the incremental cost of the war, and to a very considerable extent, the force structure that we have is the force structure that will remain. If it isn't being used in Vietnam it will be in training status or it will be doing its job elsewhere. Measuring the incremental cost in such a situation is a difficult thing to do. I know the Secretary of Defense has made a stab at this once or twice and it may be that he will want to do that again, but we have not felt that we wanted to make such an estimate.

QUESTION: Dr. Shultz, you are estimating a '72 deficit of $45 billion. Chairman Mahon of the Appropriations Committee estimates 48 to 49 billion. What is your answer to that?

DR. SHULTZ: The chairman has been particularly interested in the federal funds deficit, which, as I mentioned earlier, we are estimating at about $45 billion. I supposed the difference must represent his view of the overall picture. The chairman studies this subject very carefully, and I always listen to what his views are. Actually, the difference between 45 and 48 billion dollars is significant, but it isn't proportionately large.

QUESTION: Mr. Secretary, you say that a six percent unemployment rate is unacceptable to the Administration. Will the Administration in its economic report or any other

State paper state what its unemployment goal is for the future in specific numbers?

SECRETARY CONNALLY: No, I don't think in the economic report or elsewhere will you find any particular statement. I think the only statement that you will find of significance in this regard is the fact that the full employment budget, this very budget we are talking about today, has as one of its basic assumptions full employment at a 4 percent unemployed rate.

QUESTION: Can we take it that is the Administration's goal?

SECRETARY CONNALLY: You can take it that that is the figure that we usefor purposes of calculating the budget. That is all it pertains to. Now, let me ask, as long as we are on the subject--I am not trying to be evasive with you what is appropriate? What is an appropriate unemployed rate? I frankly don't know. We are going to give a great deal of thought to this. Maybe 4 percent is too high. I know this: The President and this Administration wants to see this economy in such a state that everybody who wants a job, and, frankly, who will take a job, has a job. This is what we are trying to do and we have done everything we know how to do to bring it about. It is significant that during the last six months of 1971, an additional 1.7 million people were employed, gainfully employed, and the unemployment percentage rate didn't come down at all.

Now this simply means that you have an enormous number of new people coming into the labor market or that there is some inexplicable answer here that we haven't yet found. Three-quarters of a million people were added to the rolls in the fourth quarter alone. Over 80 million people were gainfully employed in the United States, at the highest wages in the history of this country but we still have six percent unemployed.

I am not suggesting to you that that is an acceptable level. I am saying exactly the opposite. It is not acceptable. The only level that will be acceptable to us is a level where we can provide full employment in this country, where there are jobs available for everyone who will hold a job, who will work at it, in order to make this country more competitive without, at the same time, creating shortages of such proportions that we again start the treadmill of inflation.

That is the best answer I can give you.

QUESTION: Just to follow on that point, if I may, is the five percent figure that you are now targeting for the end of 1972 an acceptable level?

SECRETARY CONNALLY: In the abstract, no. In the realm of practicality, I think it has to be. I think that is probably the best we can do. Given all of the

range of five percent is the most that we can get to this year without further throwing the economy out of kilter.

Now, we have undertaken massive actions in the international monetary front. We have taken a tremendous action in fiscal stimulation. We have monetary stimulation. Economy. We are doing everything that we know how to do to try to expand this economy and create new jobs, but we think as a practical matter, that this is the range that we are going to be confronted with at the end of this calendar year.

DR. SHULTZ: I might add a note on that. It seems to me the problem is not at all whether we will try to get unemployment way down, but how to do it. We know that general economic stimulant is a necessary ingredient in that effort.

But we need a program that is necessary and sufficient, and the sufficient part of it has to come from measures that go after groups that have particular problems in the labor market.

To that end, from the beginning of this Administration, we have been studying, working at, increasing, and trying to improve manpower programs, education programs, vocational education and vocational rehabilitation to help in this regard.

We have been trying to see that we have a network of job banks, for example, trying to see that the problems

of discrimination are handled adequately. All of these kinds of things tend to hold unemployment up for various groups, regardless of how gloomy the economy may be.

There are these two fronts that we have to work on, and to be thinking about when we consider this unemployment problem.

QUESTION: I wonder where the Administration thinks that these people in the labor market may be coming from. Could they be coming from the hundreds of thousands of legal and illegal aliens who are let into this country every year?

SECRETARY CONNALLY: Some of them might be. But I don't think that that is the real problem. I think the problem is that more and more people are entering the labor market. Wives are working, children at younger ages are working it is significant when you look at the figures, and this is what Director Shultz was addressing himself to, that for married men, heads of families, for instance, the unemployed rate is very low and has been all year. On a State insured basis, your unemployment figure is down to 4.1 percent in December.

But for teenagers the unemployment rate runs about 17 percent, for blacks about 10 percent.

So what we are trying to do, and we have a study

under way at this very moment, analyzing who these unemployed are. Are they entering the labor force the first time? What skills do they have?

Because when you deal with just the abstract percentages, you don't really tell the real story, nor, frankly, do you reach the heart of the problem. This is why so much emphasis has been placed on manpower training programs and education and so forth, because we firmly believe that only by this means can you really strike at the real trouble among the unemployed.

QUESTION: Is there a dollar number in the present budget for the increase in manpower programs?

SECRETARY CONNALLY: Yes, we have it on one of the charts.

QUESTION: Mr. Shultz, do you think that you can safely use aggregate policy as opposed to these other types of policies to push the unemployment rate below five percent?

DR. SHULTZ: Well, I think we need to be working on both aspects all the time, and simultaneously. Since we have now a much stronger set of manpower programs than we had 10 years ago, certainly we want to push below five percent aggressively.

But as you get down below five percent in a sense, your mix of what you need to give primary attention to has to shift. Otherwise, you will just explode into inflation

again.

We know that, if you compare 10 years ago with now (a point many of you have made in your columns), you see that the structure of employment has changed in such a way that if you took the 10 years ago structure and projected it into the present, your unemployment rate would be lowered by four to five-tenths of a percent. That is a sort of measure of how the problem has changed.

That doesn't mean that we can let up at all in our efforts to get unemployment down, but it suggests that the way we go about it as we get down into that range has got to be modified.

QUESTION: Is there an estimate of how many more jobs might be provided by the increase in defense spending?

DR. SHULTZ: We expect -- as that chart (#35) I showed suggested -- to see that the tremendous draw down that has been going on in defense-related jobs will cease. It isn't that we will be getting huge increases in defense-related employment, but rather that this problem in addition to unemployment from declining defense expenditures will disappear.

There will be some places where defense-related employment will increase and some where it will decrease, but we expect that there will be, in general, a more stable

QUESTION: Mr. Shultz, you said getting hold of the estimate of the increment of the war is a very difficult thing to do. As I recall, a similar answer was given us last year.

DR. SHULTZ: That is right.

QUESTION: Why is this such a difficult thing to do?

DR. SHULTZ: In a technical sense, it is hard to know just what you should count and what you shouldn't count. If a carrier is in waters near Vietnam, is it part of the cost of the war or isn't it? That carrier is going to stay in the fleet and it is going to continue to sail around whether it is there or whether it is somewhere else. You get into all sorts of problems like that.

I think the big fact about the Vietnam war, of course, is the fact that the American involvement has been reduced greatly. Obviously, the budget outlays have been reduced greatly. Our American casualties have been reduced greatly. We are in the process of ending that war in a way that will contribute to the stability and peace in the long run. That is the accomplishment in Vietnam.

By this time, the budget outlays incrementally due to the Vietnam war are very small as compared with what they were, say, four years ago. We are just sort of arguing about how many angels you get on the head of a pin as far

as that is concerned.

QUESTION: Mr. Secretary, if the President is serious about a value added tax, there must be something in the budget that would relate to it -- the manpower for enforcement or perhaps just planning money.

What all is there in the budget that relates to a value added tax?

SECRETARY CONNALLY: I don't think there is anything in the budget that relates to a value added tax. I don't think it anticipates its submission to the Congress at all.

QUESTION: Do you?

SECRETARY CONNALLY: Not now.

QUESTION: Mr. Secretary, how many additional jobs do you think it will take to force the unemployment rate down to the anticipated five percent level?

SECRETARY CONNALLY: I haven't calculated it. I can add, but I can't subtract very well.

DR. SHULTZ: That is the basic trouble with the budget process.

SECRETARY CONNALLY: You roughly have five million unemployed, and you are talking about five percent. Another one million jobs roughly, one million and a quarter.

QUESTION: How is the Federal funds deficit in the new budget comparable to the $45 billion in the old one?

DR. SHULTZ: $36 billion.

Here is the answer to the question on manpower funds that was asked earlier. In 1971, the outlays were $2.6 billion; in 1972, $3.6 billion is estimated; and in 1973, $4.3 billion is the estimate.

QUESTION: Mr. Shultz, what was the amount of income lost by labor strikes in 1971, and also in 1969?

DR. SHULTZ: I don't have a figure for that, but strike activity in 1971 was high, particularly in the middle of the year. Since the freeze, there has been great cooperation not only with the wage-price element of the freeze, but also with the effort to have a more peaceful labor situation.

I think the statistics that show this best is the series on time lost due to strike. At the end of the year it was down a little from what it was in the middle of the year.

Last year was a high strike year. We hope we can look forward to a year that isn't troubled by strikes, particularly strikes in the key industries.

Obviously, a year ago last fall, the auto strike was a tremendous blow to the economy. That took about $14 billion out of the economy. It was a tremendous blow.

This year the transportation strikes have been quite disruptive, particularly the dock strikes. We have had uncertainty on the dock going back to the summer and continuing until this day. That is a problem that the President is determined to do something about, and which we must do something about. The impact of strikes is great, not only on the parties themselves, but also on third parties who aren't directly involved in the disputes. The lives, businesses, employment, and, in the case of agriculture, the produce of third parties may be disrupted very badly. Their market may be very badly disrupted.

It is for that reason that the President yesterday called for strong legislation in the Longshoremen case.

QUESTION: Mr. Shultz, what was your estimate last year at this time, of the Federal funds deficit?

DR. SHULTZ: It was correspondingly below what it actually turned out to be. I think that the estimates of how much the surplus in the trust funds would be is fairly accurate.

QUESTION: What was it comparable to?

DR. SHULTZ: There is about a $6 billion surplus in the trust funds in 1972. I don't know what our estimate was last year.

I don't know whether I understand your question.

QUESTION: I was just wondering, your estimate must have been off last year. I was wondering how much?

DR. SHULTZ: Well, the reason why the Federal funds deficit estimate was off is the same reason why the unified budget deficit estimate is off. The Federal fund estimate is the same as the unified estimate with the addition of the surplus in the trust fund.

The trust fund surplus is not as difficult to estimate as is economic activity.

QUESTION: Mr. Shultz, on Page 49 there is a figure in the chapter on Perspectives, "Costs of new programs proposed in the 1973 budget," projected to 1976, is $19 billion.

Could you break that $19 billion down by major items?

DR. SHULTZ: I might say we have felt it important to make this projection because we have made a bona fide call for discipline and we must look beyond the current year in these budget decisions.

I don't know whether we have the $19 billion figure broken down here.

Why don't we try to get that for you.

MR. WEINBERGER: You wanted the cost of the items that are included in the $19 billion total?

QUESTION: What other choices do I have? (Laughter)

MR. WEINBERGER: I guess I had better not answer that. We will go on to the next one. (Laughter)

The figure includes the various revenue sharing programs, the continuation of the manpower programs, the continuation of law

enforcement, transportation programs, with estimates of the costs of these carried out to each of the five years.

What I am looking for is the table -- and I haven't found it yet -- that summarizes all of these.

Urban community development, by 1977, for example, is anticipated to cost $2.9 billion. The rural community development by that year is estimated to cost $1.1 billion. Educational revenue sharing is estimated to cost $3.2 billion by that year. Manpower special revenue sharing is estimated to cost $2 billion by that year; law enforcement, $876 million; transportation, $2.4 billion by that year; the family health insurance program, $2.1 billion; welfare reform program, $5.5 billion in 1977. There is also an allowance of $600 millio

QUESTION: Would you give us the five biggest items? I am not interested in the small ones.

DR. SHULTZ: Well, you have a copy of the budget. It is shown on Table 16, beginning on page 538. The table goes on for quite a number of pages. You can pick out what you want.

QUESTION: That adds up to $19 billion.

MR. WEINBERGER: We are confident that it contains many of the items that are in the $19 billion to which you refer.

QUESTION: Mr. Secretary, as a sometimes politician, could you assess for us the political impact of three somewhat historic budget deficits in a row?

SECRETARY CONNALLY: Could I do what?

QUESTION: Assess the policitcal impact of it.

SECRETARY CONNALLY: Let me answer that by simply saying that I wish it could have been otherwise. None of us is proud of these deficits, but when you analyze the economic situation which prevails in the country, I think it is fair to say that these deficits are designed to help cure some of the problems that this country faces, some of which we have already outlined this morning. We recognize full well that there has to be economic stimulation. We recognize full well that this was the reason for the tax cuts and this was the reason for the job development credit proposal, and the reason for the repeal of the excise taxes and the reason for a great

great many actions that the President has taken, all of which impinges on this budget.

Now, as Director Shultz pointed out, we have tried as best we can to adhere to the disciplines of the full employment budget. We are not going to get to that in '72 by about $8 billion, but that doesn't mean that we cast it aside. It goes back to the first question that you asked me. We are not casting it aside at all. It is still a discipline that we and the Congress should pay attention to.

But there are always circumstances that change any particular theory, or any course that we are trying to follow. I don't brag about three deficits in a row.

But at the same time, I think under the circumstances it was the wise course to follow in the best interest of the Nation -- not necessarily in the best political interest of Richard Nixon--but in the best interest of the country.

QUESTION: It is the same answer we got from the Democrats when they were in.

SECRETARY CONNALLY: Well, the Democrats say a lot of things that are true.

QUESTION: When you get an actual deficit that is more than three times as much as the deficit that was estimated a year ago, would you have any reason to believe the next estimate?

SECRETARY CONNALLY: Yes, if you had a logical explanation of how the deficit arose and what brought it about. I think you certainly have reason to have some confidence in the projection. I know what you are saying that, in effect, "if you missed it so far last year, what reason do we have to believe you this year?" Well, I think there is a very logical explanation for the deficit in this fiscal year.

QUESTION: Would you have a logical explanation for the next larger deficit next year?

SECRETARY CONNALLY: I hope we don't have to have one. We are projecting at full employment a slight surplus in fiscal '73, and if we get the expected expansion in the economy, if it moves as fast as most people think that it will, we will realize our estimates.

Now, if there is a radical change, it will be very clear that we will miss it.

So to say to you that we can without error predict the future, I will have to say we can't do that.

DR. SHULTZ: There is a point that I would like to make. These figures are not put forward as gross magnitudes that you have to accept on some sort of faith. The assumptions on which they are built, and the details -- as we learned when Cap was reading that table -- that lie behind them, are all laid out in this extensive document.

If you have different assumptions about the level of economic activity that is liable to result from the budget, or if you think that the Congressional disposition of the President's outlay requests will vary from what he has requested in some respects, or if you think changes of one kind or another will be made, and you can estimate these changes in detail. We have set forward in detail our assumptions and our program projections to get to our total figure. We have tried to do this as accurately and honestly as we possibly can.

QUESTION: The other day, Mr. Secretary, in explaini the budget deficit in roughly the same terms as you have today you said that the Government was on the horns of a dilemma. How did it get to that dilemma?

SECRETARY CONNALLY: I think you have to pick your starting point. It probably started back in '64 or '65, probably started with the build-up of war activity in relation to Vietnam. It was probably not recognized at that point in time what the ultimate impact that that kind of stimulation was going to have, the tremendous impact that the Vietnam war with over 500,000 men over there, with war product and all that went with it. I think that is what started it. I am not going to try to sit here and tell you precisely how it all came about today, but certainly it didn't just star last year or the year before. It has been building for almost

a decade.

QUESTION: Thank you, gentlemen.

(Whereupon, at 11:10 a.m., the briefing was concluded.)

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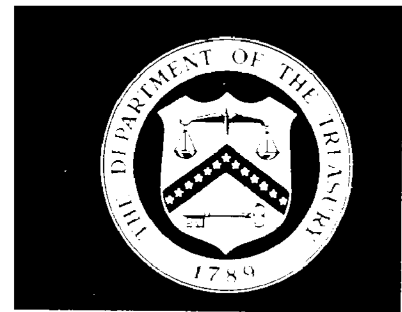

NTION: FINANCIAL EDITOR

RELEASE 6:30 P.M. January 25, 1972

RESULTS OF TREASURY'S MONTHLY BILL OFFERING

The Treasury Department announced that the tenders for two series of Treasury s, one series to be an additional issue of the bills dated October 31, 1971 , and other series to be dated January 31, 1972 , which were offered on January 19, 1972, opened at the Federal Reserve Banks today. Tenders were invited for $500,000,000, hereabouts, of 274-day bills and for $1,200,000,000, or thereabouts, of 366-day s. The details of the two series are as follows:

E OF ACCEPTED ETITIVE BIDS:	274-day Treasury bills maturing October 31, 1972			366-day Treasury bills maturing January 31, 1973	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	97.052	3.873%	:	96.046 a/	3.889%
Low	97.010	3.928%	:	95.933	4.000%
Average	97.038	3.892% 1/	:	95.998	3.936% 1/

a/ Excepting one tender of $505,000
39% of the amount of 274-day bills bid for at the low price was accepted
8% of the amount of 366-day bills bid for at the low price was accepted

L TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

strict	Applied For	Accepted	:	Applied For	Accepted
ston	$ 10,320,000	$ 320,000	:	$ 15,120,000	$ 5,120,000
w York	1,173,790,000	466,570,000	:	1,827,530,000	976,090,000
iladelphia	450,000	450,000	:	1,105,000	1,105,000
eveland	1,165,000	1,165,000	:	595,000	595,000
chmond	3,700,000	700,000	:	8,925,000	6,925,000
lanta	13,325,000	825,000	:	18,585,000	15,585,000
icago	92,365,000	12,365,000	:	114,080,000	55,080,000
. Louis	31,125,000	7,820,000	:	29,155,000	24,735,000
nneapolis	2,650,000	650,000	:	5,560,000	3,640,000
nsas City	11,625,000	1,625,000	:	13,275,000	10,355,000
llas	22,900,000	900,000	:	22,990,000	4,990,000
n Francisco	142,865,000	6,615,000	:	146,420,000	95,900,000
TOTALS	$1,506,280,000	$ 500,005,000 b/		$2,203,340,000	$1,200,120,000 c/

ncludes $12,530,000 noncompetitive tenders accepted at the average price of 97.038
ncludes $18,005,000 noncompetitive tenders accepted at the average price of 95.998
nese rates are on a bank discount basis. The equivalent coupon issue yields are .05% for the 274-day bills, and 4.13% for the 366-day bills.

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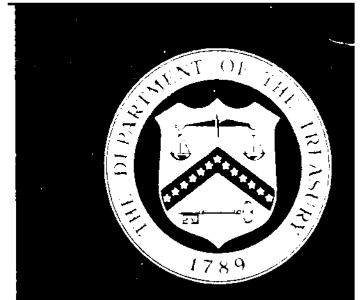

FOR IMMEDIATE RELEASE January 25,1972

LOCKHEED BORROWS AN ADDITIONAL $25 MILLION
UNDER GOVERNMENT GUARANTEE

The Emergency Loan Guarantee Board today approved the request of Lockheed Aircraft Corporation and its lending banks for permission for the company to borrow from the banks an additional $25 million under Government guarantee. This brings to $100 million the borrowings to date under Government guarantee.

Lockheed is authorized under the terms of its agreement with the Emergency Loan Guarantee Board to borrow from the lending banks up to $250 million under Government guarantee.

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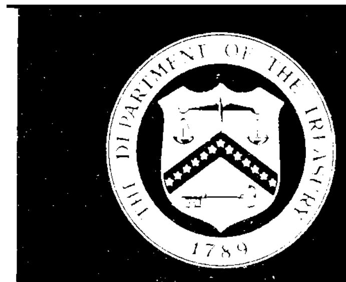

FOR RELEASE ON DELIVERY

STATEMENT BY THE HONORABLE CHARLS E. WALKER
UNDER SECRETARY OF THE TREASURY
BEFORE
THE HOUSE COMMITTEE ON APPROPRIATIONS
THURSDAY, JANUARY 27, 1972, 10:00 A.M.,EST

Mr. Chairman and Members of this Distinguished Committee:

I am pleased to appear before you today to discuss certain aspects of our budgetary position, and especially the revenue outlook.

The tables appended to my statement present the revenue side of the Federal Budget in considerable detail, so I will merely touch on a few of the highlights.

Our current estimates show a moderate gain in tax receipts in fiscal 1972 and a large increase in fiscal 1973. The total for the current fiscal year is $197.8 billion - $9.4 billion above last year. This increase is only about half of what we would expect from the growth in the economy this year. The short-fall is primarily due to tax reductions.

Unified budget receipts in fiscal 1973 are estimated at $220.8 billion, an increase of $23 billion over fiscal 1972. This estimate is based on the expectation that the GNP in calendar 1972 will total $1145 billion, an increase of $98 billion over calendar 1972. This

contrasts with a GNP increase of $72.5 billion in calendar 1971 over 1970. Personal income in 1972 is expected to be up 8 percent - to $924 billion - and corporate profits before taxes are estimated to rise 16 percent to $99 billion.

The substantial rise in budget receipts from fiscal 1972 to 1973 will result mainly from the strong and balanced expansion in economic activity expected in the next year and a half. Personal and corporate tax cuts in 1973 are approximately off-set by scheduled increases in social security taxes.

Although the projected Federal Budget will require somewhat less borrowing in fiscal 1973 as compared with the current year, we will require a substantial increase in the debt limit. The Ways and Means Committee will open hearings on Monday on a Treasury request to increase the debt limit by $50 billion, an amount that should be adequate to meet our needs into the first months of 1973.

I am sure that this Committee is, as we are, deeply concerned about the large deficits in prospect for fiscal 1972 and 1973. No one can be happy about deficits of this size. Yet they must be analyzed in the light of our current economic circumstances.

Although we have had very robust gains in the employment totals in recent months - 1.7 million persons added to the payrolls since June - the unemployment rate is still in the neighborhood of 6 percent. That is a rate that is _not_ acceptable to this Administration. There is slack and excess capacity in the economy. At this time, an attempt

to balance the budget by cutting spending or raising taxes would risk impeding the business advance and reduction in unemployment we seek. On the inflation front, we are making progress, and conditions are favorable for continuing that progress. The financing needs arising from the deficit will be manageable, given this economic background, the relatively good supply of funds in the market, and prevailing monetary conditions.

In these circumstances, the deficits in our 1972 and 1973 budgets are bearable. They are an inevitable price for what we want to do. There are, in fact, a reflection of a coordinated program that is designed - along with an appropriate monetary policy, manpower programs and other economic policies - to put a significant dent in the unemployment rate in the coming year while making further progress against inflation.

At the same time, it would clearly be foolhardy to fail to face up to the need to discipline Federal spending. For fiscal 1973, the expenditure total is already about equal to the revenues that the present tax structure would produce at full employment. Expenditures should be held to that level to assure that the deficit shrinks and disappears as we reach our economic goals and the economy is operating nearer its capacity. Otherwise, we will jeopardize and even cast away the hard won progress on the inflation front. In this context I urge that this Committee act upon the President's call for a firm ceiling on spending which would be binding on both the Congress and the Administration.

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Budget Receipts

Under Legislation Proposed in Fiscal 1973 Budget Document
Fiscal Years

($ billions)

	Actual	Estimated	
	1971	1972	1973
[ndividual income tax	86.2	86.5	93.9
;orporation income tax	26.8	30.1	35.7
Employment taxes and contributions	41.7	46.4	55.1
Jnemployment insurance	3.7	4.4	5.0
;ontributions for other insurance and retirement	3.2	3.4	3.6
Excise taxes	16.6	15.2	16.3
Estate and gift taxes	3.7	5.2	4.3
;ustoms duties	2.6	3.2	2.8
liscellaneous receipts	3.9	3.5	4.1
Unified budget receipts	188.4	197.8	220.8
)educt:			
Trust funds, etc.	54.6	60.0	70.2
Federal funds receipts	133.8	137.8	150.6

Underlying Economic Assumptions - Calendar Years

	1970	1971	1972
NP	974	1047	1145
ersonal income	804	857	924
orporate profits before tax	75	85	99

Projected Changes in Budget Receipts
Fiscal Years 1972-1973

	(In billions of dollars) Fiscal 1972 from Fiscal 1971	Fiscal 1973 from Fiscal 1972
Revenue changes traceable to:		
Economic growth	+17.6	+24.0
Tax Reform Act of 1969	- 2.7	- 2.5
Revenue Act of 1971	- 4.4	- 2.5
Changes in Depreciation Regulations	- 3.0	- 0.2
Social Security changes, enacted and proposed	+ 2.1	+ 6.4
Other changes	- 0.2	- 2.2
Total	+ 9.4	+23.0

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NEWS

FOR IMMEDIATE RELEASE January 26, 1972

TREASURY ANNOUNCES PROPOSED RULES AND HEARING ON LIBERALIZED SYSTEM OF DEPRECIATION AS MODIFIED BY THE REVENUE ACT OF 1971

The Treasury Department today issued proposed amendments to the Asset Depreciation Range or ADR System -- the liberalized system of depreciation -- to reflect changes in the system made by the Revenue Act of 1971.

The proposed amendments to the system (section 1.167 (a)-11 of the Income Tax Regulations) implement the new Internal Revenue Code sections 167 (m) and 263 (f) added by the Revenue Act of 1971.

The amendments will be published in proposed form in the Federal Register for Thursday, January 27, 1972. A public hearing on the proposed amendments will be held beginning February 29, 1972.

The Revenue Act of 1971 established a class life system of depreciation substantially the same as the ADR system. The Class Life Asset Depreciation Range System contained in the proposed amendments to the regulations applies to eligible property placed in service after 1970. The class life system also replaces guideline depreciation under Revenue Procedure 62-21 for property placed in service after 1970.

The Revenue Act of 1971 modified the ADR regulations to eliminate the use of a "first-year convention," which would in some cases have permitted three-quarters of a year's depreciation for the year in which assets are placed in service, and to include real estate and foreign property in the class life system. The Revenue Act of 1971 also provides a transition rule for depreciation of subsidiary assets.

In addition to reflecting these changes made by the Revenue Act of 1971, the proposed amendments make certain technical improvements in the ADR regulations. In all other respects, the basic rules for determining useful lives for depreciation (including the use of asset depreciation ranges from 20 percent below to 20 percent above the class lives) and the treatment of salvage value, retirements and repairs are the same as under the ADR regulations issued by Treasury on June 23, 1971.

The Internal Revenue Service announced today a new Revenue Procedure in accordance with the Revenue Act of 1971. Revenue Procedure 72-10, announced in Technical Information Release 1137, will

be published in Internal Revenue Bulletin 1972-8 for February 22, 1972. Revenue Procedure 72-10 supersedes Revenue Procedure 71-25 and contains the initial asset depreciation periods and classes, asset depreciation ranges, and repair allowances under the Class Life Asset Depreciation Range System contained in the proposed amendments. This Revenue Procedure will be revised, if necessary, to conform to the final amendments to the regulations and will be effective only in accordance with the final amendments.

Extended Time for Making or Revoking an Election

In general, all elections previously made under the ADR regulations or made while these amendments are in proposed form must conform to the final amendments when adopted. Taxpayers may file elections while these amendments are in proposed form, and those who choose to do so should make the election and file their tax returns in accordance with the proposed amendments. All taxpayers, including those who have filed elections prior to adoption of the final amendments, will be given an extended period of time in which to make, amend or revoke their election and to conform their tax returns to the final amendments. They will, in general, have until the later of 120 days after the final amendments to the regulations are published in the Federal Register or the date for filing the tax return (including extensions of time for filing) in which to do so.

First-Year Convention

Section 167 (m) of the Code and the proposed amendments to the regulations limit the use of a first-year convention in the calculation of the depreciation allowance. In general, no convention may be used under the Class Life Asset Depreciation Range System contained in the proposed amendments to section 1.167 (a)-11 of the regulations which would produce more than a half-year's depreciation in the first year if all property in the account were placed in service ratably throughout the year. Thus, the "modified half-year convention" contained in the ADR regulations issued on June 23, 1971, which provided as much as three-quarters of a year's depreciation the first year, may not be used. Section 1.167 (a)-11 of the proposed regulations will permit a choice of two forms of a half-year convention under the Class Life Asset Depreciation Range System.

Foreign Property

Under the Revenue Act of 1971 property predominantly used outside the United States is included in the Class Life Asset Depreciation Range System. The "asset depreciation ranges" contained in Revenue Procedure 72-10 do not, however, apply to property predominantly used outside the United States. Accordingly, depreciation for such property included in an election of the Class Life Asset Depreciation Range System will be based on the class life.

Transition for Real Property and Subsidiary Assets

Real estate is included in the Class Life Asset Depreciation Range System. No asset depreciation range is provided for real estate. Under the Revenue Act of 1971, during a transitional period beginning January 1, 1971, and extending no later than January 1, 1974, taxpayers may at their option exclude from their election, any item of real estate if a depreciable life shorter than the class life is justified under Revenue Procedure 62-21 for the year in which the asset is placed in service. The transition period for real estate will end prior to January 1, 1974, if the Treasury Department prior to that time re-prescribes or modifies the class life for the real estate. The initial classes and lives contained in Revenue Procedure 72-10 do not terminate the transition period. The Treasury Department and the Office of Industrial Economics in the Internal Revenue Service are presently engaged in a study of classes and lives for real estate. It is anticipated that the cooperation of taxpayers, through surveys and otherwise, will be enlisted in obtaining data for a revision of classes and lives for real estate.

A similar transitional period applies to subsidiary assets (jigs, tools, dies, etc.). Under the Class Life Asset Depreciation Range System subsidiary assets are in general included within the basic industry class for the activity in connection with which the subsidiary asset is used. There are no separate classes for subsidiary assets in Revenue Procedure 72-10. If during a taxable year in the transition period the total amount of subsidiary assets placed in service in the class during the year is 3 percent or more of all assets placed in service in the class during the year, the taxpayer may at his option exclude all the subsidiary assets in the class from his election to apply the Class Life Asset Depreciation Range System. The transitional period for subsidiary assets will terminate January 1, 1974, or earlier if the Treasury Department re-prescribes or modifies classes or lives which include the subsidiary assets. The initial classes and lives contained in Revenue Procedure 72-10 do not terminate the transition period.

Repair Allowance

The proposed amendments to the regulations make significant improvements in the application of the "asset guideline class repair allowance." The definitions of units of property and of excluded additions are clarified. Also, the costs, direct and indirect, taken into account in the repair allowance are specified in greater detail for the guidance of taxpayers.

The initial repair allowances contained in Revenue Procedure 72-10 do not include "repair allowance percentages" for real estate. The Treasury Department and the Office of Industrial Economics in the Internal Revenue Service are studying repair practices for real estate with a view to establishing repair allowance percentages for this property in the near future. Taxpayers are encouraged to assist the Office of Industrial Economics in obtaining the needed information.

Public Utility Property

In the case of public utility property, the ADR regulations provide that certain taxpayers who are required under section 167 (l) to "normalize" the tax savings from using an accelerated method of depreciation are also required to normalize the tax savings resulting from using a life shorter than the guideline life and the three-quarter year convention under the ADR regulations. The proposed amendments reflect the elimination of the three-quarter year convention by the Revenue Act of 1971, and retain the rules requiring normalization of the tax savings resulting from using a life shorter than the guideline life.

These rules require certain adjustments to be made on the taxpayer's regulated books of account. For 1971, if the taxpayer has made the required adjustments to his regulated books of account by the date his election for 1971 is required to be made, the normalization requirements will be considered to have been met. For subsequent years, the same rules will apply to the amount required to be normalized under the regulations as will apply to the normalization of the excess of accelerated depreciation over straight line under section 167 (l). Although proposed regulations under 167 (l) have not been issued, Treasury expects that these regulations, when issued, will provide that the normalization requirements will be considered to be met for any taxable year if normalization is reflected in the annual report to shareholders for that year.

Guideline System of Depreciation For Assets Placed In Service Prior to 1971

Revenue Procedure 72-10 will also apply under the guideline system of depreciation which the Treasury Department expects to be issued in the near future in proposed form in section 1.167 (a)-12 of the regulations to deal with guideline depreciation (without a reserve ratio test) in taxable years ending after 1970 for assets placed in service prior to 1971.

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The Department of the TREASURY NEWS

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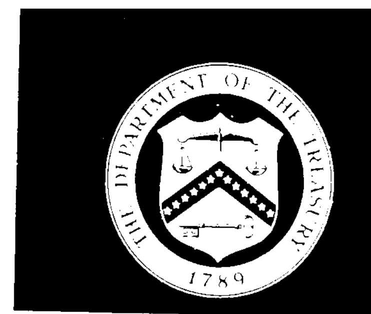

FOR IMMEDIATE RELEASE

January 26, 1972

TREASURY ANNOUNCES REFUNDING

The Treasury today announced that it is offering holders of $4.5 billion of notes and bonds maturing February 15, 1972, an opportunity to exchange their holdings for a 4-year 3-month 5-3/4% note or a 10-year 6-3/8% bond. The bonds are also being offered for cash subscription to individuals in amounts not to exceed $10,000 for any one person. Cash subscriptions for the notes will not be accepted.

The public holds $3.7 billion of the securities eligible for exchange, and about $0.8 billion is held by Federal Reserve Banks and Government accounts.

In addition, the 6-3/8% bonds are being made available to holders of $14.3 billion of securities maturing in February and May of 1974. Of these, $11.8 billion are held by the public. Details showing cash and interest adjustments applying in exchanges of securities due in 1974, appear in the table at the end of this release. The 5-3/4% notes are not being offered to these holders.

The securities eligible for exchange for either the notes or bonds are as follows:

4-3/4% Treasury Notes of Series A-1972, maturing February 15, 1972
7-1/2% Treasury Notes of Series C-1972, maturing February 15, 1972
4% Treasury Bonds of 1972, maturing February 15, 1972

The securities eligible for exchange for the bonds only are as follows:

7-3/4% Treasury Notes of Series C-1974, maturing February 15, 1974
4-1/8% Treasury Bonds of 1974, maturing February 15, 1974
7-1/4% Treasury Notes of Series D-1974, maturing May 15, 1974
4-1/4% Treasury Bonds of 1974, maturing May 15, 1974

The securities being offered in exchange are:

5-3/4% Treasury Notes of Series E-1976, dated February 15, 1972, due May 15, 1976 (Cusip No. 912827 CP5), at par

6-3/8% Treasury Bonds of 1982, dated February 15, 1972, due February 15, 1982 (Cusip No. 912810 BL1), at par

Subscription books for the offering will be open until 5:00 p.m., local time, Wednesday, February 2, 1972. To be timely subscriptions MUST BE RECEIVED by a Federal Reserve Bank or Branch or by the Office of the Treasurer of the United States by such time, except that subscriptions addressed to a Federal Reserve Bank or Branch or to the Office of the Treasurer of the United States postmarked before midnight, Tuesday, February 1, 1972, will be deemed to be timely.

The notes and bonds will be made available in registered as well as bearer form in denominations of $1,000, $5,000, $10,000, $100,000, and $1,000,000. All subscribers requesting registered securities will be required to furnish appropriate identifying numbers as required on tax returns and other documents submitted to the Internal Revenue Service.

Any coupons dated February 15, 1972, on notes and bonds tendered in exchange should be detached and cashed when due. The February 15, 1972, interest due on registered notes and bonds will be paid by issue of interest checks in regular course to holders of record on January 14, 1972, the date the transfer books closed. All coupons dated subsequent to February 15, 1972, must be attached to surrendered notes and bonds due on February 15 and May 15, 1974. Interest will be adjusted as of February 15, 1972, for the securities due May 15, 1974.

Subscriptions for cash must be accompanied by payment of 10% of the amount of bonds applied for. Cash subscriptions will be allotted in full and payment therefor must be completed by Tuesday, February 15, 1972, in cash or other funds immediately available to the Treasury by that date. The Treasury will construe as timely payment any check payable to the Federal Reserve Bank or the Treasurer of the United States that is received at such bank or office by Wednesday, February 9, 1972, provided the check is drawn on a bank in the Federal Reserve District of the bank or office to which the subscription was submitted.

Banking institutions in submitting cash subscriptions for customers will be required to certify that they have no beneficial interest in any of the subscriptions they enter.

Subscribers exchanging securities due in 1974 may elect, for Federal income tax purposes, to recognize gain or loss on account of the exchange either in the taxable year of the exchange or (except to the extent that cash is received) in the taxable year of disposition or redemption of the securities received in the exchange. Any gain to the extent that cash is received by the subscriber (other than as an interest adjustment) must be recognized in the year of the exchange. Subscribers exchanging securities due in 1972 must recognize gain or loss on account of the exchange in the taxable year of the exchange.

The payment and delivery date for the securities will be February 15. Interest on the notes will be payable on a semiannual basis on May 15 and November 15 in each year until the notes mature. Interest on the bonds will be payable semiannually on August 15, 1972, and February 15 and August 15 in each year until maturity.

Table of payments to or by subscribers in exchanges for the 6-3/8% bonds
(In dollars per $1,000 face value)

Securities to be exchanged	Payment to or by (-) subscriber to adjust exchange values	Payment to subscriber for accrued interest to February 15, 1972, on securities exchanged	Net amount to be paid	
			To subscriber	By subscriber
7-3/4% Note of 2/15/74	53.21583	---	53.21583	---
4-1/8% Bond of 2/15/74	-14.40167	---	---	14.40167
7-1/4% Note of 5/15/74	47.56228	18.32418	65.88646	---
4-1/4% Bond of 5/15/74	-15.04946	10.74176	---	4.30770

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

FOR RELEASE ON DELIVERY

STATEMENT BY JACK F. BENNETT
DEPUTY UNDER SECRETARY OF THE TREASURY
FOR MONETARY AFFAIRS
BEFORE THE
SUBCOMMITTEE ON SURFACE TRANSPORTATION
OF THE SENATE COMMERCE COMMITTEE
ON S. 2362
THURSDAY, JANUARY 27, 1972 AT 10:00 A.M.

Mr. Chairman:

I appreciate your invitation to me to present the views of the Treasury Department on two bills before your Committee. In summary, the Treasury position supports strongly the proposed Transportation Regulatory Modernization Act of 1971 (S. 2842) and recommends replacing the Surface Transportation Act of 1971 (S. 2362) by the Transportation Assistance Act of 1971 (S. 2841), which was recommended to you by the Department of Transportation in November. In view of the areas of responsibility of the Treasury I shall comment primarily on the credit financing and taxation aspects of the proposals.

The Administration's proposals for credit assistance to surface transportation were presented to this subcommittee in November in the testimony by the Secretary of Transportation. Secretary Volpe testified that one of the critical problems facing the railroad industry was the inability to secure

on reasonable terms an adequate supply of freight cars and other rolling stock. Thus he recommended favorable action on Title I of S. 2841, which would authorize the Secretary of Transportation to insure railroad equipment obligations in amounts up to $3 billion outstanding at any one time.

The Treasury Department has not made an independent assessment of the particular needs for Federal credit assistance in the surface transportation industry. Yet, to the extent justified, we believe that any direct credit assistance to the railroads or to other common carriers should be an integral part of the Government's overall transportation policy and transportation assistance programs, which are a primary responsibility of the Department of Transportation.

Accordingly, we feel that any new transportation credit assistance program should be lodged in the Transportation Department, rather than in the Treasury Department, and we thus recommend the enactment of the Administration's credit assistance proposals in S. 2841 in lieu of the approach taken in the Surface Transportation Act proposal.

Title I of the proposed Surface Transportation Act (S. 2362) would establish a new revenue financing division within the Treasury Department, would establish a new position of Under Secretary, and would authorize the Secretary of the Treasury to make loans, in amounts up to $5 billion outstanding at any one time, to common carriers in the transportation industry. Under the proposal the Secretary could make such loans in cases where he had determined that financial assistance was not otherwise available on reasonable terms and that the public interest would be served.

Thus S. 2362 would go far beyond the Administration's recommendations in that it would authorize $2 billion more in loans and would not specify the purposes for which loans could be made. While the Treasury has not itself made a careful examination of the credit needs in the surface transportation industry, we feel strongly that Federal credit assistance should be limited to specific areas of clearly demonstrated need.

There has been a rapid expansion of Federal credit assistance programs in recent years, to such an extent that a number of questions have been raised

regarding our credit allocation mechanisms and the role of private credit institutions. Direct Federal and Federally assisted borrowings, including loan guarantee programs, currently require about 40 percent of net new credit available in the United States. To deal with the problems resulting from this expanded role of the Federal Government in credit markets, Secretary Connally submitted legislation to the Congress in December 1971 to establish a Federal Financing Bank.

The proposed Federal Financing Bank Act would make the Secretary of the Treasury responsible for coordinating the marketing of Federal and Federally guaranteed borrowings. The Act would also authorize the Federal Financing Bank, which would be supervised by the Secretary of the Treasury, to purchase guaranteed obligations, including any obligations insured by the Secretary of Transportation under S. 2841. Thus, enactment of the Financing Bank Act would in effect permit the Treasury to handle the marketing of the proposed insured railroad equipment obligations, and there would be no need for a new revenue financing division in the Treasury as proposed in S. 2362.

Even if S. 2841 were enacted before the Federal Financing Bank Act the marketing of obligations insured under S. 2841 would be assured by the authorization in that legislation for the Secretary of Transportation to borrow from the Secretary of the Treasury if at any time the monies in the proposed Federal Railroad Equipment Obligation Insurance Fund are not sufficient to pay any amount the Secretary of Transportation is required to pay under his loan insurance agreements. The Treasury Department has similar arrangements with other Federal agencies issuing or guaranteeing obligations in the securities markets, and we would be happy to work with the Department of Transportation to assure the most effective financing of this program.

I would like to turn now to the tax provisions of S. 2362.

Title V of S. 2362, cited as "Surface Transportation Tax Incentives of 1971," would provide, at section 502, for the restoration of the investment credit for transportation equipment. However, in lieu of the 7 percent credit repealed in 1969 (and recently restored by the Revenue Act of 1971), the credit is

to be 10 percent with respect to equipment placed in service after March 31, 1971, and 8 percent with respect to equipment placed in service after March 31, 1973.

The credit would be available for railroad rolling stock, trucks and vessels operated on the navigable waters, inland waterways, Great Lakes of the United States or primarily engaged in United States coastwise, intercoastal, or noncontiguous domestic water transportation services.

The tax credit provided by section 502 has in substance been adopted. Congress, in enacting the President's New Economic Policy by the Revenue Act of 1971 restored the investment credit in the form of a job development credit. The credit of 7 percent against Federal income tax is available for the same assets as are listed in section 502(c)(1) and applies to: (1) equipment constructed by the taxpayer where construction began after March 31, 1971 or was completed after August 15, 1971; (2) equipment acquired after August 15, 1971; or (3) equipment acquired after March 31, 1971 and before August 16, 1971 which was ordered after March 31, 1971.

Where construction was begun before April 1, 1971 and completed after August 15, 1971, only the post-August 15, 1971 costs qualify for the credit.

The credit restored by the Revenue Act of 1971 is substantially the same as the one provided for in this bill and it will provide essentially the same economic incentives. We do not believe that it would be desirable to allow greater credits for transportation equipment than are allowed to taxpayers for other equipment. Congress and its tax writing committees gave consideration to allowing a credit of more than 7 percent for all equipment when it deliberated the Revenue Act of 1971 but they rejected that proposal. In addition, a disparity in tax credit rates would prove to be difficult to administer and would give rise to cries of discrimination from taxpayers purchasing either non-transportation equipment or transportation equipment which doesn't qualify for the higher credit. For these reasons we oppose the proposed special tax credit for transportation equipment.

Section 503 of Title V provides that the five-year amortization presently permitted under Code section 184

for certain railroad stock would be expanded to (1) water vessels and (2) trucks. Section 184 was added to the Internal Revenue Code by the Tax Reform Act of 1969 in response to the representation that many types of railroad rolling stock were in short supply. Since the investment credit was being repealed and inasmuch as Congress desired to provide a short-term tax benefit to be invested in railroad rolling stock, section 184 was made applicable to railroad rolling stock placed in service, but only until 1974. Moreover, after 1972 this benefit will not be available for any type of railroad rolling stock which the Secretary of the Treasury has determined not to be in short supply.

Now that the investment credit has been restored, there is no need for the tax incentives provided by the five-year amortization provisions. That Congress shares this view is evident from section 48(a)(8) of the Code which was added by the Revenue Act of 1971. Section 48(a)(8) precludes the use of the reinstated investment credit for equipment which is subject to five-year amortization.

Not only do we question the desirability of retaining the five-year amortization provisions now that the investment credit has been restored, we also doubt the wisdom of extending the election of five-year amortization for water vessels and trucks.

Under proposed section 503 the availability of the five-year amortization for water vessels and trucks would not be limited to qualified transportation property placed in service before 1975. Furthermore, and more importantly, the benefit of the five-year amortization would not be limited to such transportation property which is in short supply which, after all, was the sole justification for enacting section 184 in 1969.

We know of no factual data that have been developed indicating that either water vessels or trucks are in short supply. Consequently, it has not been demonstrated that tax incentives through accelerated write-offs of the cost of such equipment should be allowed.

Also, it has not been demonstrated that these substantial benefits should be available into the indefinite future (including for railroad rolling stock). At the time section 184 was enacted it was

thought that the five-year amortization should be made available only for equipment placed into service before 1975 to permit at that time a further evaluation to determine whether these benefits should be continued. Proposed section 503(a) would essentially preclude such an additional evaluation.

Proposed section 504 would provide for the elimination of the applicability of the minimum tax to amortization claimed under Code section 184. We do not understand the rationale for this provision. The minimum tax was enacted in order to impose a tax on taxpayers who obtain disproportionate tax benefits from tax incentives having generally desirable ends. We believe that excessive tax benefits from rapid amortization on transportation equipment should continue to be treated as an item of tax preference, as are other rapid amortization and depreciation items.

Mr. Chairman, that concludes my prepared statement. I would be happy to attempt to answer any questions you may have.

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FOR RELEASE ON DELIVERY

STATEMENT OF THE HONORABLE PAUL A. VOLCKER
UNDER SECRETARY OF THE TREASURY FOR MONETARY AFFAIRS
BEFORE THE COMMITTEE ON APPROPRIATIONS
OF THE HOUSE OF REPRESENTATIVES
THURSDAY, JANUARY 27, 1972, AT 10:00 A. M.

THE INTERNATIONAL FINANCIAL SITUATION IN LIGHT OF THE SMITHSONIAN AGREEMENT

Mr. Chairman and Members of the Committee:

Nearly six weeks have passed since the Group of Ten agreed at the Smithsonian Institution to a multilateral exchange rate realignment and other measures to restore international monetary stability and expand world trade. The Committee may be interested in a brief assessment of the international situation in the light of that Agreement.

Let me say first that we have been encouraged by the widespread view, here and abroad, that the Smithsonian Agreement represents major progress both for the United States and for all countries. Certainly we recognize that much remains to be done in basic monetary reform, trade policy,

and defense sharing to attain and maintain a more equitable and balanced world payments structure. Much will also depend -- and I would emphasize this -- on how well we and our trading partners operate our domestic economies. But the fact that the Smithsonian Agreement has been generally accepted as a major step in adjusting to today's realities and a base for further progress is heartening.

In negotiating a multilateral exchange rate agreement covering a number of major currencies, we made new and unique progress in monetary cooperation. There is no science that can tell us with accuracy what set of exchange rates is precisely needed to assure market stability and restore multilateral payments equilibrium. Vital national interests were affected, and a hard negotiating and bargaining process took place. In the give and take of negotiations, one side rarely, if ever, can achieve its full objective. But there is a general consensus that a fair blending of competing interests yielded acceptable progress for all. In sum, I believe the Agreement is a fair and reasonable one which will make a real and substantial contribution to a

at the conclusion of the Smithsonian Agreement, we made clear that the prospects for such a flow were doubtful.

Indeed, there are several factors working to moderate the speed with which speculators and others who transferred funds abroad during the crisis would wish to transfer funds back to the United States in large amounts. Undoubtedly, much of the speculation into foreign currencies was of the nature of leads and lags -- businessmen anticipating future foreign payments and the like. This phenomenon would be expected to unwind only over a period of time. Secondly, interest rates during this period have provided no incentive for reflows to the United States. With the present slack in the U. S. economy, our short-term interest rates have been at the lower end of the international spectrum while a number of European countries, which have been maintaining policies of restraint to slow down inflation, have maintained relatively higher rates. In addition, during much of the period since December 18, the dollar has, as I have indicated, been at a substantial premium in the exchange markets relative to the new base rates. This has meant that anyone

transferring funds back to the United States stood a risk of "losing" if the rate for the dollar subsequently moved lower. With the wider margins now in operation, the scope for such rate fluctuations is now increased.

I believe it would be a mistake to conclude that no reflows of short-term funds are occurring, as leads and lags unwind. Reports -- admittedly fragmentary -- of our payments position over the period since December 18 indicate that our over-all official settlements position has probably showed a modest surplus in the past month. There has been some net reduction in total foreign official dollar holdings since the Agreement. Since many important elements in our balance of payments were almost certainly in sizeable deficit during this period, there must have been a net reflow of short-term funds, not now identifiable, which offset the other deficit items.

Apart from questions concerning short-term flows, there is the question of the impact of the realignment on trade and other elements in our balance of payments. No one should expect the realignment and other measures agreed

December 18 to have a large immediate effect on our trade and other basic elements in our balance of payments position, such as direct investment and tourism. In fact, the immediate effects of an exchange rate change are usually preverse -- for example, where commitments have already been made to purchase certain imports, the change in exchange rates may merely mean that the United States importer must pay more for the same quantity of goods. It is only over an extended period -- probably two years or more -- that the full effects of the rate changes can work their way through the system. While we should see part of the effect much sooner, it is only over such longer period that producers and consumers, in the United States and abroad, can fully adapt to the new rates and the new price structures and competitive opportunities which those rates bring.

I feel that developments since the Smithsonian Agreement represent a reasonable adjustment to the new situation. But this is only the experience of a few short weeks. The important question is where do we go from here. And this depends in very large measure on policies which we pursue in our domestic economy.

The United States has an obligation -- to its own citizens and to the entire free world -- to eliminate the slack in its economy with policies for strong and non-inflationary growth. The advantages of higher employment and increased U. S. production to our domestic prosperity are obvious. But it is not always recognized how critically important a strong and growing U. S. economy is to a healthy world economy -- particularly at a time when growth rates abroad are slackening. Without reasonable growth and employment in the United States, a stable international equilibrium is not likely to be achieved -- and a resurgence of protectionism would be a danger.

The challenge is to achieve the needed expansion in our economy while progressing further toward price stability, not only to assure that our expansion brings growth in real output rather than higher prices, but also to enable us to strengthen our ability to compete in domestic and overseas markets with foreign competitors. Only then can we take full advantage of the opportunities provided by the exchange rate realignment to restore our trade and payments position on a lasting basis.

Thus, both our balance of payments and our domestic objectives call for policies of expansion and for the containment of inflation. Those are the policies we are now following. The budget deficit for the present year is certainly very large. But, in the context of the desirability of providing an expansionary stimulus through fiscal policy, this deficit can be accepted. There is room in the economy to allow for expansion without inflation. Our wage and price program will help to ensure that our expansionary policies lead to growth in real output. The budget for the next fiscal year is held to full employment balance, which means diminished fiscal stimulation as the economy expands. We must maintain that discipline and would welcome its enforcement by a truly effective expenditure ceiling. This is the sensible approach from the viewpoint of our domestic and international economic needs. It will best serve to increase our domestic prosperity consistent with restoring a strong balance of payments.

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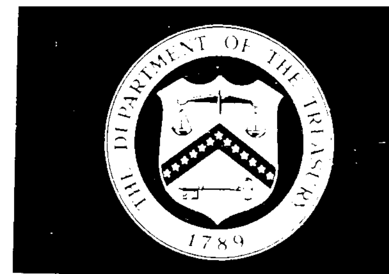

FOR RELEASE UPON DELIVERY

REMARKS BY RICHARD V. ADAMS
SPECIAL ASSISTANT TO THE SECRETARY (DEBT MANAGEMENT)
BEFORE THE
U. S. SAVINGS BONDS CAMPAIGN MEETING
SHERATON-SCHROEDER HOTEL
MILWAUKEE, WISCONSIN
THURSDAY, JANUARY 27, 1972, 12:30 p.m., C.S.T.

Chairman Krikorian, distinguished guests, ladies and gentlemen --

It is a very real pleasure for me to be here in Milwaukee today and to have this opportunity to discuss with you some thoughts about our Savings Bonds Program as we launch our 1972 campaign.

This is an impressive assembly of Milwaukee's business leadership. We of the Treasury are very pleased with this outstanding support on the part of business and industry and we thank you. We offer special thanks to our genial host, Chairman Krikorian.

Some of you may have wondered just where Savings Bonds fit into our economic picture -- in light of the Government's new economic policies and our desire to stimulate consumer spending for goods and services.

To get at the answer to that question, let's look briefly at the New Economic Policy, its objectives, and at our progress since August 15 in meeting these objectives.

The President, as we all know, announced a new set of economic initiatives on August 15, which have as basic objectives (1) breaking the back of inflation and inflationary expectations, (2) creating jobs and promoting longer-run economic expansion, and (3) balancing our international accounts and restructuring the international monetary system.

To accomplish these objectives, the President took steps both domestically and on the international side.

Here at home, we had the price-wage freeze, which has to be recognized as a resounding success. It virtually stopped inflation during the freeze period and restored confidence in the economy. It also gave the Administration time to formulate the longer-run economic stabilization plan which is Phase II. I am confident that the system of wage-price restraint that has been developed will, in the months ahead, prove to be a meaningful anti-inflation program that will work without unduly restraining economic expansion.

In order to further the second objective of the New Economic Policy, which is to create jobs and promote long-run

economic growth, the Government has enacted a comprehensive tax program designed to stimulate the economy through business and personal tax cuts. We can expect these important tax changes to have a major beneficial effect on economic activities in the months and years ahead.

On the international side, the suspension of gold convertibility and the 10% surcharge on imports was intended to create a climate in which basic changes can be negotiated in international monetary and trading relationships which will put the U. S. in a much improved competitive position in world markets and make over-all balance in our international accounts possible. The December 18 Smithsonian accord goes a long way toward allowing us to meet these objectives. Serious negotiations in the trade area are in progress. But it is evident that some broad international agreements have emerged that should make progress toward a solution of international monetary and trade problems possible in the near future.

Now, against this background of positive action to improve our economic well-being, how is the economy doing? I think it is safe to say almost all of the recent economic developments are encouraging as we look ahead into 1972 and beyond. In fact,

the U. S. economy is now taking on a bright new look. Some specific items:

-- On inflation, both wholesale and consumer price indexes since August show a clear curbing of the inflationary momentum that existed this year. This is true despite jumps in these indexes in December, following the lifting of the freeze. As a matter of fact, the GNP deflator rose at only a 1.5% annual rate in the fourth quarter, while wholesale prices rose at an 0.3% annual rate and consumer prices at a 2.3% annual rate.

-- "Real" GNP is showing broad based strength, rising at an annual rate of 6.1% in the quarter ending December 31.

-- Durable goods orders are growing, particularly producers capital goods. The improvement here is supported by the latest Commerce-SEC survey of plant and equipment expenditures which suggests a rise in these outlays of 10% or more in 1972.

-- Retail sales are strong. Excluding automobiles, retail sales in December were 5% higher than a year ago. With inflation slowing, much more of these sales gains are now real gains, rather than simply a reflection of higher prices.

-- We also have areas of continuing strength in housing, which is setting records this year. In addition, expenditures for new construction increased about 15% and were at an all-time high in 1971.

All of this points to a year of strong economic growth in 1972, accompanied by reduced rates of inflation and unemployment as real output and productivity accelerate and the Government's program of wage-price restraint operates effectively.

In this environment of improving economic conditions, I can say, without equivocation, that the Savings Bonds Program will continue, under the new economic plan, to fill an important role. Those who buy Savings Bonds regularly, systematically, will benefit, as always, from the family security derived from the Payroll Savings Plan. By the same token, the Government -- and the Nation at large -- will gain from an ongoing flow of these stable, non-inflationary savings funds.

Thrift is still a virtue, a habit which sometimes takes a long time to form and certainly a habit which needs constant encouragement. The Payroll Savings Plan has for years performed a valuable service in making it easy for our citizens to put aside small sums on a regular basis for emergency needs and future opportunities. For the self-employed, the professional man and woman, the Bond-A-Month Plan has been a beneficial program.

It would be unfortunate -- and unnecessary, to reduce our efforts in the promotion of Savings Bonds sales -- even temporarily. We do not wish to see the habit of thrift diminished. We do not desire a reduction in this sound source of funds to the Treasury.

As of December 31, the cash value of E and H Bonds outstanding amounted to $54.3 billion. With the inclusion of Freedom Shares -- which were withdrawn from sale on July 1, 1970 -- holdings total $54.9 billion, an all-time peak.

This is a huge sum of money, in the hands of tens of millions of Americans who now own Savings Bonds. It represents 22 percent of the privately-held portion of the public debt.

But the importance of Savings Bonds in terms of managing the national debt is not fully reflected in this single fraction, significant though it is. The fact is that Savings Bonds today, even with their shorter initial maturities, constitute a very stable portion of the Government debt.

Because of the 4-1/4 percent interest rate ceiling on Government bonds that dates from World War One, the Treasury had from 1965 until this year been prevented from issuing any securities of more than seven years to maturity. We now have $10 billion of authority from Congress to issue bonds longer than seven years without regard to the 4-1/4% ceiling. Nevertheless, this authority will be used gradually and Savings Bonds will remain important in the over-all structure of the Treasury's debt.

Thus, it is not difficult to understand why we are concerned that we continue to be able to count on a solid base of funds provided to the Government in the form of Savings Bonds dollars. On the basis of past experience, we can predict that the Savings Bonds sold today, on the average, will not be redeemed for 5-1/2 years, which is considerably longer than the average maturity of our marketable issues.

This may sound a bit strange, since one hears so often that Savings Bonds are cashed in practically as soon as they are bought. It is true that there are those who turn them in after the minimum wating period, and early redemptions are a problem. But, by and large, our buyers hold onto their Savings Bonds. Every analysis we have made shows that in comparison with deposits at commercial banks, savings and loan associations, and mutual savings banks, people hold their Savings Bonds.

We no longer need to apologize for the Savings Bonds interest level. Savings Bonds now earn 5-1/2 percent, when held to maturity. This is a good return, a sound return, a guaranteed return.

From the beginning of the Savings Bonds Program, the industry-oriented Payroll Savings Plan has been the backbone of the Program. Today, more than 40,000 companies, large and small, operate the plan, and the Savings Bonds purchased by their employees account for more than two-thirds of total sales.

The U. S. Industrial Payroll Savings Committee -- with the support of organized labor and the vast army of Savings Bonds volunteers -- has accomplished a formidable task in promoting the sales of E Bonds. The 1972 Committee has taken on a

challenge just as formidable. We are confident that it, too, will not only meet but exceed its goal.

Those of you who are spearheading our 1972 Campaign are selling a product that is tried and true -- one that is good for the Nation and good for each of us as individuals.

CANDIDATE PROTECTION ADVISORY COMMITTEE

FOR IMMEDIATE RELEASE | Washington, D.C.

MEMORANDUM FOR THE PRESS: | January 27, 1972

In response to inquiries the Treasury Department said today:

"The Commission met today to consider its responsibilities under the appropriate statute. It recommended to the Secretary of the Treasury that protection be provided to announced candidates receiving at least 5 percent in either the Harris or Gallup polls and to persons who are unannounced candidates who receive 20 percent in the same polls subject to the legal determination of the Secretary of the Treasury as to eligibility under the law. The Committee also recommended that such protection commence on March 20."

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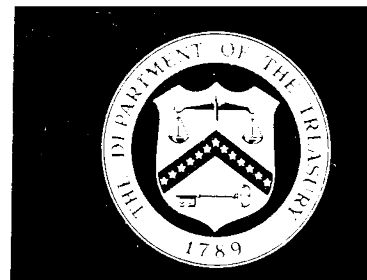
The Department of the TREASURY
SHINGTON, D.C. 20220 TELEPHONE W04-2041
NEWS



FOR IMMEDIATE RELEASE January 27, 1972

JOHN PETTY RESIGNS AS ASSISTANT SECRETARY
FOR INTERNATIONAL AFFAIRS

The White House today announced the resignation of John R. Petty as Assistant Secretary of the Treasury for International Affairs. Mr. Petty, 41, will leave the Treasury February 25 to become a Managing Director of the new Washington office of Lehman Brothers, Inc., the investment banking firm.

In commenting on the announcement, Treasury Secretary John B. Connally said:

> "John Petty has rendered outstanding service to four Secretaries of the Treasury during a period of substantial international financial adjustment and change in United States foreign economic policy. Most recently, his diligence and sound judgment in pursuing this country's international monetary and trade objectives have been of the very highest order. I sincerely regret the departure of such a fine public servant."

Before coming to Treasury, Mr. Petty was Vice President of the Worldwide Projects Division, Chase Manhattan Bank, New York. Mr. Petty was appointed Deputy Assistant Secretary for International Affairs in September 1966. He became Acting Assistant Secretary in February, 1968, and was appointed Assistant Secretary in May, 1968. In June, 1969, Mr. Petty was nominated by President Nixon for reappointment.

A native of Chicago, Illinois, Mr. Petty received a B.A. degree in international affairs from Brown University, Providence, Rhode Island, in 1951.

(OVER)

In 1968, Mr. Petty received the Treasury Department Exceptional Service Award, and in February, 1969, Mr. Petty was awarded the Arthur S. Flemming Award as "One of the Ten Outstanding Young Men in the Federal Service."

Mr. Petty is married to the former Lee Mills of New York. They have four children.

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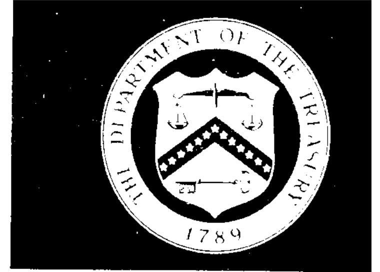
The Department of the TREASURY NEWS

:HINGTON, D.C. 20220 TELEPHONE W04-2041



FOR IMMEDIATE RELEASE January 27, 1972

MEMORANDUM FOR THE PRESS:

Secretary of the Treasury John B. Connally today sent to the Speaker of the House of Representatives and the President of the Senate proposed legislation providing tax relief for one-bank holding companies required to divest their bank or non-bank properties under the Bank Holding Company Act Amendments of 1970.

Similar tax-relief legislation was enacted after passage of the Bank Holding Company Act of 1956 and the 1966 amendments to the Act.

A copy of Secretary Connally's letter transmitting the proposed bill to the President of the Senate is attached. (Identical letter sent to the Speaker of the House.) Also attached are copies of the draft bill and a summary of its provisions.

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Attachments

THE SECRETARY OF THE TREASURY
WASHINGTON

JAN 27 1972

Dear Mr. President:

I am enclosing a draft bill "To amend the Internal Revenue Code of 1954 with respect to the income tax treatment of certain distributions and sales pursuant to the Bank Holding Company Act Amendments of 1970." I also am enclosing a detailed summary of the proposed legislation.

In general, the 1970 amendments require a one bank holding company to divest either its bank or its nonbank assets. The 1970 amendments were passed with the expectation that the hardships caused by divestiture would be ameliorated by appropriate tax relief legislation. Consequently, the proposed legislation seeks (1) to update existing sections 1101-1103 of the Internal Revenue Code to permit tax-free distributions to stockholders of property required to be divested under the Bank Holding Company Act Amendments of 1970; and (2) to provide for nonrecognition of gain to the divesting corporation upon its sale of property required to be divested under the Bank Holding Company Act Amendments of 1970. A brief summary of the proposed legislation follows.

Distributions to stockholders. The proposed legislation would provide substantially the same tax relief that was extended to divestitures under the Bank Holding Company Act of 1956 and its 1966 amendments. The proposal would only apply to a corporation which became a bank holding company under the Bank Holding Company Act Amendments of 1970. Under the proposal, property which is required to be divested could be distributed to the stockholders without any recognition of gain to the stockholders. In the absence of this special provision, such a distribution might otherwise be taxable to the stockholders as a dividend.

The proposal would only apply to the distribution of property under the Bank Holding Company Act which had been acquired prior to July 7, 1970 -- the date on which the Senate Banking and Currency Committee announced it would report out a bill dealing with one bank holding companies.

In general, the proposal follows the precedent of sections 1101-1103 of the Internal Revenue Code which applied to distributions under the Bank Holding Company Act of 1956 and its 1966 amendments. Accordingly, under the proposed legislation, property could be distributed without recognition of gain either directly to the stockholders of the bank holding company or to a wholly-owned subsidiary created to receive the property which the company is prohibited from retaining. If the property is distributed to a specially-created subsidiary, all of the stock in the subsidiary then must be distributed to the stockholders of the bank holding company. As under the prior law, tax exemption for any particular distribution would be denied if that distribution is part of a plan with a principal purpose of avoiding the dividend tax on a distribution of earnings and profits.

Prior to any distribution, the bank holding company would be required to obtain the certification of the Federal Reserve Board that the distribution is necessary or appropriate to effectuate the Bank Holding Company Act Amendments of 1970.

Sales. The proposal would supplement prior law in connection with the Bank Holding Company Act by providing for the nonrecognition of gain where property is divested by means of a sale to a third party as well as where the property is distributed to the stockholders of the bank holding company.

The Internal Revenue Code presently provides for the nonrecognition of gain in the case of the compulsory or involuntary conversion of property. In many respects the required divestiture of bank or nonbank property under the Bank Holding Company Act Amendments of 1970 is analogous to an involuntary conversion. Accordingly, it seems appropriate to offer relief patterned after the existing provisions in the Internal Revenue Code dealing with involuntary conversions.

The proposal would allow a bank holding company to elect to defer the recognition of gain on a divestiture sale if the amount realized from the sale is reinvested in qualifying replacement property within a specified period of time.

In order to qualify for this provision, a bank holding company which sells either its bank property or its nonbank property would have to invest the proceeds of sale in the purchase of a controlling (80 percent) stock interest in another corporation or in the purchase

of substantially all the assets of another corporation. This reinvestment could be made in anticipation of the divestiture sale or within three years after the sale, with provision for the extension of this period by the Secretary or his delegate for reasonable cause.

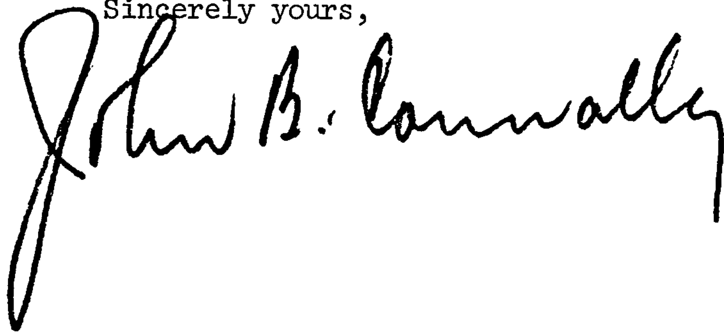
The basis of any stock or assets which are acquired under this proposal as replacement property would be reduced by the amount of the deferred gain. Where stock of another corporation is acquired, the basis of the underlying assets of the acquired corporation would also be reduced by the amount of the deferred gain, but not below the greater of the basis of the stock which is acquired or the basis of the old assets which were sold pursuant to the Bank Holding Company Act.

The proposal would only apply to the sale of property which was acquired before July 7, 1970 and which the Federal Reserve Board certifies is necessary or appropriate to effectuate the Bank Holding Company Act Amendments of 1970.

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

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

Enclosures

A BILL

To amend the Internal Revenue Code of 1954 with respect to the income tax treatment of certain distributions and sales pursuant to the Bank Holding Company Act Amendments of 1970

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

(a) Subchapter O of chapter 1 of the Internal Revenue Code of 1954 is amended by adding at the end thereof the following new part:

PART X--DISTRIBUTIONS AND SALES PURSUANT TO BANK HOLDING COMPANY ACT AMENDMENTS OF 1970

Sec. 1121. Distributions Pursuant to Bank Holding Company Act Amendments of 1970.

Sec. 1122. Sales Pursuant to Bank Holding Company Act Amendments of 1970.

Sec. 1123. Definitions.

"SEC. 1121. DISTRIBUTIONS PURSUANT TO BANK HOLDING COMPANY ACT AMENDMENTS OF 1970.

"(a) Distributions of Certain Nonbanking Property.--

"(1) Distributions of prohibited property.--
If--

"(A) a qualified bank holding corporation distributes prohibited property (other than stock received in an exchange to which subsection (c) (1) applies)--

"(i) to a shareholder (with respect to its stock held by such shareholder), without the surrender by such shareholder of stock in such corporation; or

"(ii) to a shareholder, in exchange for its preferred stock; or

"(iii) to a security holder, in exchange for its securities; and

"(B) the Board has, before the distribution, certified that the distribution of such prohibited property is necessary or appropriate to effectuate section 4 of the Bank Holding Company Act of 1956, as amended by the Bank Holding Company Act Amendments of 1970,

then no gain to the shareholder or security holder from the receipt of such property shall be recognized.

"(2) Distributions of stock and securities received in an exchange to which subsection (c) (1) applies.--
If--

"(A) a qualified bank holding corporation distributes--

"(i) common stock received in an exchange to which subsection (c) (1) applies to a shareholder (with respect to its stock held by such shareholder), without the surrender by such shareholder of stock in such corporation; or

"(ii) common stock received in an exchange to which subsection (c) (1) applies to a shareholder, in exchange for its common stock; or

"(iii) preferred stock or common stock received in an exchange to which subsection (c) (1) applies to a shareholder, in exchange for its preferred stock; or

"(iv) securities or preferred or common stock received in an exchange to which subsection (c) (1) applies to a security holder in exchange for its securities; and

"(B) any preferred stock received has substantially the same terms as the preferred stock exchanged, and any securities received have substantially the same terms as the securities exchanged,

then, except as provided in subsection (f), no gain to the shareholder or security holder from the receipt of such stock or such securities or such stock and securities shall be recognized.

"(3) Non pro rata distributions.--Paragraphs (1) and (2) shall apply to a distribution whether or not the distribution is pro rata with respect to all of the shareholders of the distributing qualified bank holding corporation.

"(4) Exception.--This subsection shall not apply to any distribution by a company which has made any distribution pursuant to subsection (b).

"(5) Distributions involving gift or compensation.--In the case of a distribution to which paragraph (1) or (2) applies, but which--

"(A) results in a gift, see section 2501, and following, or

"(B) has the effect of the payment of compensation, see section 61 (a) (1).

"(b) Corporation Ceasing to be a Bank Holding Company.--

"(1) Distributions of bank property.--If--

"(A) a qualified bank holding corporation distributes bank property (other than stock received in an exchange to which subsection (c) (2) applies)--

"(i) to a shareholder (with respect to its stock held by such shareholder), without the surrender by such shareholder of stock in such corporation; or

"(ii) to a shareholder, in exchange for its preferred stock; or

"(iii) to a security holder, in exchange for its securities; and

"(B) the Board has, before the distribution, certified that--

"(i) such property is all or part of the property by reason of which such corporation owns or controls (within the meaning of section 2 (a) of the Bank Holding Company Act of 1956, as amended) a bank or bank holding company, or did so own or

control a bank or bank holding company prior to any distribution under section 1121; and

"(ii) the distribution is necessary or appropriate to effectuate the policies of such Act,

then no gain to the shareholder or security holder from the receipt of such property shall be recognized.

"(2) Distributions of stock and securities received in an exchange to which subsection (c) (2) applies.--If--

"(A) a qualified bank holding corporation distributes--

"(i) common stock received in an exchange to which subsection (c) (2) applies to a shareholder (with respect to its stock held by such shareholder), without the surrender by such shareholder of stock in such corporation; or

"(ii) common stock received in an exchange to which subsection (c) (2) applies to a shareholder, in exchange for its common stock; or

"(iii) preferred stock or common stock received in an exchange to which subsection (c) (2) applies to a shareholder, in exchange for its preferred stock; or

"(iv) securities or preferred or common stock received in an exchange to which subsection (c) (2) applies to a security holder, in exchange for its securities; and

"(B) any preferred stock received has substantially the same terms as the preferred stock exchanged, and any securities received have substantially the same terms as the securities exchanged,

then, except as provided in subsection (f), no gain to the shareholder or security holder from the receipt of such stock or such securities or such stock and securities shall be recognized.

"(3) Non pro rata distributions.--Paragraphs (1) and (2) shall apply to a distribution whether or not the distribution is pro rata with respect to all of the shareholders of the distributing qualified bank holding corporation.

"(4) Exception.--This subsection shall not apply to any distribution by a corporation which has made any distribution pursuant to subsection (a).

"(5) Distributions involving gift or compensation.--In the case of a distribution to which paragraph (1) or (2) applies, but which--

"(A) results in a gift, see section 2501 and following, or

"(B) has the effect of the payment of compensation, see section 61 (a) (1).

"(c) Exchanges Involving Creation of Subsidiary.--

"(1) Exchanges involving prohibited property.--If--

"(A) any qualified bank holding corporation exchanges (i) prohibited property, which, under subsection (a) (1), such corporation could distribute directly to its shareholders or security holders without the recognition of gain to such shareholders or security holders, and other property (except bank property), for (ii) all of the stock of a second corporation created and availed of solely for the purpose of receiving such property;

"(B) immediately after the exchange, the qualified bank holding corporation distributes all of such stock in a manner prescribed in subsection (a) (2); and

"(C) before such distribution, the Board has certified (with respect to the property exchanged which consists of property which, under subsection (a) (1), such corporation could distribute directly to its shareholders or security holders without the recognition of gain) that the exchange and distribution are necessary or appropriate to effectuate section 4 of the Bank Holding Company Act of 1956 as amended by the Bank Holding Company Act Amendments of 1970,

then subsection (a) (2) shall apply with respect to such distribution.

"(2) Exchanges involving bank property.--If--

"(A) any qualified bank holding corporation exchanges (i) bank property which, under subsection (b) (1), such corporation could distribute directly to its shareholders or security holders without the recognition of gain to such shareholders or security holders, and other property (except prohibited property), for (ii) all of the stock of a second corporation created and availed of solely for the purpose of receiving such property;

"(B) immediately after the exchange, the qualified bank holding corporation distributes all of such stock in a manner prescribed in subsection (b) (2); and

"(C) before such distribution, the Board has certified (with respect to the property exchanged which consists of property which, under subsection (b) (1), such corporation could distribute directly to its shareholder or security holders without the recognition of gain) that--

"(i) such property is all or part of the property by reason of which such corporation owns or controls (within the meaning of section 2 (a) of the Bank Holding Company Act of 1956, as amended) a bank or bank holding company or did so own or control a bank or bank holding company prior to any distribution under section 1121; and

"(ii) the exchange and distribution are necessary or appropriate to effectuate the policies of such Act,

then subsection (b) (2) shall apply with respect to such distribution.

"(d) Distributions to Avoid Federal Income Tax.--

"(1) Prohibited property.--Subsection (a) shall not apply to a distribution if, in connection with such distribution, the distributing corporation retains, or transfers after July 7, 1970, to any corporation, property (other than prohibited property) as part of a plan one of the principal purposes of which is the distribution of the earnings and profits of any corporation.

"(2) Banking property.--Subsection (b) shall not apply to a distribution if, in connection with such distribution, the distributing corporation retains, or transfers after July 7, 1970, to any corporation, property (other than bank property) as part of a plan one of the principal purposes of which is the distribution of the earnings and profits of any corporation.

"(e) Time Limit.--Subsection (a) or (b) shall not apply unless the distribution described in such subsection of prohibited property or bank property is completed within three years after the first distribution of such property is made.

"(f) Certain Exchanges of Securities.--In the case of an exchange described in subsection (a) (2) (A) (iv) or subsection (b) (2) (A) (iv), subsection (a) or (b) (as the case may be) shall apply only to the extent that the principal

amount of the securities received does not exceed the principal amount of the securities exchanged.

"(g) Basis of Property Acquired in Distributions.--If, by reason of section 1121, gain is not recognized with respect to the receipt of any property, then, under regulations prescribed by the Secretary or his delegate--

"(1) if the property is received by a shareholder with respect to stock, without the surrender by such shareholder of stock, the basis of the property received and of the stock with respect to which it is distributed shall, in the distributee's hands, be determined by allocating between such property and such stock the adjusted basis of such stock; or

"(2) if the property is received by a shareholder in exchange for stock or by a security holder in exchange for securities, the basis of the property received shall, in the distributee's hands, be the same as the adjusted basis of the stock or securities exchanged, increased by--

"(A) the amount of the property received which was treated as a dividend, and

"(B) the amount of gain to the taxpayer recognized on the property received (not including any portion of such gain which was treated as a dividend).

"(h) Allocation of Earnings and Profits.--

"(1) Distribution of stock in a controlled corporation.--In the case of a distribution by a qualified bank holding corporation under section 1121 (a) (1) or (b) (1) of stock in a controlled corporation, proper allocation with respect to the earnings and profits of the distributing corporation and the controlled corporation shall be made under regulations prescribed by the Secretary or his delegate.

"(2) Exchanges described in section 1121 (c) (1) or (2).--In the case of any exchange described in section 1121 (c) (1) or (2), proper allocation with respect to the earnings and profits of the corporation transferring the property and the corporation receiving such property shall be made under regulations prescribed by the Secretary or his delegate.

"(3) Definition of controlled corporation.--For purposes of paragraph (1), the term 'controlled corporation' means a corporation with respect to which at least 80 percent of the total combined voting power of all classes of stock entitled to vote and at least 80 percent of the total number of shares of all other classes of stock is owned by the distributing qualified bank holding corporation.

"(i) Itemization of Property.--In any certification under this part, the Board shall make such specification and itemization of property as may be necessary to carry out the provisions of this part.

"SEC. 1122. SALES PURSUANT TO BANK HOLDING COMPANY ACT AMENDMENTS OF 1970.

"(a) Nonrecognition of Gain.--If a qualified bank holding corporation after December 31, 1970 sells prohibited property or bank property the divestiture of either of which the Federal Reserve Board certifies is necessary or appropriate under the Bank Holding Company Act Amendments of 1970, gain from such sale, at the election of the taxpayer, shall be recognized only to the extent that the amount realized upon such sale (regardless of whether such amount is received in one or more taxable years) exceeds the cost of qualifying replacement property purchased during the reinvestment period An election under this subsection shall be made at such time and in such manner as the Secretary or his delegate may by regulations prescribe. For purposes of this subsection the taxpayer shall be considered to have purchased property only if, but for the provisions of subsection (e), the unadjusted basis of such property would be its cost within the meaning of section 1012.

"(b) Certification.--Subsection (a) shall not apply unless the Federal Reserve Board certifies, prior to any sale, that the sale of prohibited property or bank property, as the case may be, is necessary or appropriate to effectuate the Bank Holding Company Act Amendments of 1970.

"(c) Reinvestment period.--The reinvestment period referred to in subsection (a) shall be the period beginning three years before the date of disposition of the prohibited property or bank property, as the case may be, (but not before January 1, 1971) and ending three years after the date of disposition of such property or ending at the close of such later date as the Secretary or his delegate may designate for reasonable cause shown. For purposes of this subsection, no property acquired before the disposition of the prohibited property or bank property shall be considered to have been acquired for the purpose of replacing such property unless held by the taxpayer on the date of such disposition.

"(d) Qualifying replacement property.--For purposes of subsection (a), qualifying replacement property means property which is permitted to be held without any requirement of divestiture under the Bank Holding Company Act of 1956, as amended by the Bank Holding Company Act Amendments of 1970, and which is--

"(1) stock of another corporation if, immediately after the purchase, the acquiring corporation has control of such other corporation (whether or not such acquiring corporation had control immediately before the purchase); or

"(2) substantially all the assets of another corporation used in the trade or business of such corporation.

For purposes of this paragraph, the term "control" means the ownership of stock possessing at least 80 percent of the total combined voting power of all classes of stock entitled to vote and at least 80 percent of the total number of shares of all other classes of stock of the corporation.

"(e) Basis of qualifying replacement property.--

"(1) To the extent gain is not recognized because subsection (a) applies, such gain shall be applied to reduce the basis for determining gain or loss of

"(A) any assets which are qualifying replacement property,

"(B) any stock which is qualifying replacement property,

"(C) any assets of a corporation the stock of which is qualifying replacement property, provided that the basis of such assets shall not be reduced below the greater of (i) the basis of the stock of such corporation as reduced pursuant to paragraph (1) (B) of this section, or (ii) the basis of the prohibited property or bank property which is sold by the qualified bank holding corporation determined as of the date of such sale.

If the qualifying replacement property consists of stock of more than one corporation or assets of one or more trades or businesses, the basis determined under the preceding sentence shall be allocated, under regulations prescribed by the Secretary or his delegate, to such replacement property in proportion to its respective cost.

"(f) Assessment of Deficiencies.--If the taxpayer has made an election under subsection (a) with respect to a sale, then notwithstanding any other provision of law or rule of law the statutory period for the assessment of any deficiency (including interest and additions to the tax) shall not expire until three years from the date the Secretary or his delegate is notified by the taxpayer (in such manner as the Secretary or his delegate may by regulations prescribe) of the purchase of qualified replacement property or the failure to timely purchase such property. Such deficiency may be assessed before the expiration of such three-year period notwithstanding the provisions of section 6212 (c) or the provisions of any other law or rule of law which would otherwise prevent such assessment.

"SEC. 1123. DEFINITIONS.

"(a) Bank Holding Company.--For purposes of this part, the term 'bank holding company' has the meaning assigned to such term by section 2 of the Bank Holding Company Act of 1956, as amended by the Bank Holding Company Act Amendments of 1970.

"(b) Qualified Bank Holding Corporation.--For purposes of this part, the term 'qualified bank holding corporation' means any corporation (as defined in section 7701 (a) (3)) which the Federal Reserve Board certifies became, as a result of the enactment of the Bank Holding Company Act Amendments of 1970, a bank holding company on the date of such enactment.

"(c) Bank Property.--For purposes of this part, the term 'bank property' means property acquired on or before July 7, 1970 by reason of which a corporation owns or controls (within the meaning of section 2 (a) of the Bank Holding Company Act of 1956, as amended) a bank or bank holding company, or did so own or control a bank or bank holding company prior to any distribution under sections 1121 or 1122

"(d) Prohibited Property.--For purposes of this part, the term 'prohibited property' means in the case of any qualified bank holding corporation, property (other than nonexempt property and other than bank property) acquired on or before July 7, 1970--

"(1) the disposition of which would be necessary or appropriate to effectuate section 4 of the Bank Holding Company Act of 1956, as amended by the Bank Holding Company Act Amendments of 1970; or

"(2) which would otherwise be prohibited property (within the meaning of paragraph (1) of this subsection) except for the application of section 4 (c) (11) of the Bank Holding Company Act of 1956 as amended by the Bank Holding Company Act Amendments of 1970.

The term 'prohibited property' does not include ownership of (A) five percent or less of the outstanding voting shares of any company to which the prohibitions of section 4 of the Bank

Holding Company Act of 1956, as amended, do not apply by reason of subsection (c) (6) of such section, or (B) ownership of shares of an investment company which is not a bank holding company and to which the prohibitions of section 4 of the Bank Holding Company Act of 1956, as amended, do not apply by reason of subsection (c) (7) of such section.

"(e) Nonexempt Property.--For purposes of this part, the term 'nonexempt property' means--

"(1) obligations (including notes, drafts, bills of exchange, and bankers' acceptances) having a maturity at the time of issuance of not exceeding 24 months, exclusive of days of grace;

"(2) securities issued by or guaranteed as to principal or interest by a government or subdivision thereof or by any instrumentality of a government or subdivision; or

"(3) money, and the right to receive money not evidenced by a security or obligation (other than a security or obligation described in paragraph (1) or (2)).

"(f) Board.--For purposes of this part, the term 'Board' means the Board of Governors of the Federal Reserve System.

(b) The table of parts for subchapter O of chapter 1 of the Internal Revenue Code of 1954 is amended by adding at the end thereof the following:

"Part X. Distributions and Sales Pursuant to Bank Holding Company Act Amendments of 1970."

(c) Section 311 (d) of the Internal Revenue Code of 1954 (relating to use of appreciated property to redeem stock) is amended by--

(1) adding at the end thereof the following new subparagraph:

"(H) a distribution by a corporation to which section 1121 (relating to bank holding companies) applies." ; and

(2) deleting the word "and" at the end of subparagraph 311 (d) (2) (F) and changing the period at the end of subparagraph 311 (d) (2) (G) to a semicolon and adding the word "and."

SUMMARY OF PROPOSED TAX RELIEF LEGISLATION RELATING TO DISTRIBUTIONS AND SALES PURSUANT TO THE BANK HOLDING COMPANY ACT AMENDMENTS OF 1970

Treasury recommends legislation to amend the Internal Revenue Code of 1954 with respect to the income tax treatment of certain distributions and sales pursuant to the Bank Holding Company Act Amendments of 1970. The 1970 amendments were passed with the expectation that the hardships caused by divestiture would be ameliorated by appropriate tax relief legislation allowing for the tax-free distribution of divested assets. Similar tax relief legislation was enacted after the Bank Holding Company Act of 1956 and after its 1966 amendments.

Bank Holding Company Act Amendments of 1970

The Bank Holding Company Act Amendments of 1970 (Public Law 91-607) require a one bank holding company either to divest its nonbanking interests if it chooses to remain a bank holding company, or to dispose of its banking interests so that it is no longer classified as a bank holding company. Generally, divestiture of the bank or nonbank assets is required by January 1, 1981. However, section 103 of the Act allows a bank holding company under certain circumstances to continue activities in which it was lawfully engaged on June 30, 1968 and has been continuously engaged in since that date.

Tax Proposal In Brief

The recommended legislation seeks to (1) update existing sections 1101-1103 of the Internal Revenue Code to permit tax-free distributions to stockholders of property required to be divested under the Bank Holding Company Act Amendments of 1970; (2) provide for nonrecognition of gain to the divesting corporation upon its sale of property pursuant to the Bank Holding Company Act Amendments of 1970; and (3) exempt distributions of appreciated property required to be divested under the Bank Holding Company Act Amendments of 1970 from any tax imposed by section 311(d) of the Internal Revenue Code.

Distributions To Stockholders

Section (a) of the bill would add section 1121 to the Internal Revenue Code to provide substantially the same tax relief that was extended by sections 1101-1103 of the Internal Revenue Code to divestitures under the Bank Holding Company Act of 1956 and its 1966 amendments. Section 1121 would be added to the Internal Revenue Code rather than amending sections 1101-1103 because these sections would be repealed under H.R. 25, which was introduced by Chairman Mills on January 22, 1971, to repeal provisions in the Internal Revenue Code which are obsolete or are unimportant and rarely used.

Under proposed section 1121, property which is required to be divested could be distributed by a corporation to its stockholders without the recognition of any gain to the stockholders. In the absence of this special provision, such a distribution might otherwise be taxable to the stockholders as a dividend.

Section 1121 would only apply to a corporation which became a bank holding company under the Bank Holding Company Act Amendments of 1970. Although partnerships were made subject to the Bank Holding Company Act by the 1970 amendments, the tax relief provisions do not apply to partnerships. Treasury is not aware of any partnerships required to divest under the 1970 amendments. However, Treasury would not oppose extending these provisions to any partnerships which are subject to the divestiture requirements of the 1970 amendments.

The proposal would only apply to the distribution of property under the Bank Holding Company Act which had been acquired prior to July 7, 1970 -- the date on which the Senate Banking and Currency Committee announced that it would report out a bill dealing with one bank holding companies. This restriction is considered necessary to prevent the bill from applying to corporations which might have purchased interests in banks or other businesses in order that their shareholders might benefit from the tax-free distribution treatment provided under this bill.

In general, proposed section 1121 of the Code would follow the precedent of existing sections 1101-1103 of the Internal Revenue Code as they applied to distributions under the Bank Holding Company Act of 1956 and its 1966 amendment. Accordingly, property which is required to be divested could be distributed without recognition of gain either directly to the stockholders of the bank holding company or to a wholly owned subsidiary created to receive the divested property. If the property is distributed to a specially-created subsidiary, all the stock in the subsidiary then must be distributed to the stockholders of the bank holding company.

Proposed section 1121(d) -- as under the prior law -- would deny nonrecognition treatment for any distribution which is part of a plan with a principal purpose of avoiding the dividend tax on the distribution of earnings and profits.

Several provisions in the proposed bill differ from prior law. First, proposed section 1121(b) would simplify the certification required from the Federal Reserve Board as a prerequisite to the special tax treatment. The tax law applicable to distributions under the Bank Holding Company Act of 1956 and its 1966 amendment required the Federal Reserve Board prior to any distribution to certify that the distribution was necessary or appropriate to effectuate the Bank Holding Company Act. The Board was also required to give its final certification that the bank holding company had complied with the divestiture requirements of the Bank Holding Company Act within the specified time periods. Proposed section 1121(b) would only require the Federal Reserve Board to certify prior to a distribution that the distribution is necessary or appropriate to effectuate the Bank Holding Company Act Amendments of 1970. Final certification would not be required, thus avoiding the necessity for holding the statute of limitation open for an extended period. The 1970 amendments provide for a ten year divestiture as opposed to the two year divestiture (with extensions possible to five years) which was required by the 1956 act and its 1966 amendment. Holding the statute of limitations

open for ten years until a final certification is obtained would create numerous administrative problems. It also appears that the final certification is unnecessary since the Federal Reserve Board will monitor compliance with the Bank Holding Company Act in any event, and there are severe penalties under that Act for failure to comply with the divestiture requirements.

Second, proposed section 1121(c) modifies the certification rule where a bank holding company elects to exchange its banking or its nonbanking assets for the stock of a specially-created subsidiary which stock the holding company then distributes to its stockholders. Prior law required the Federal Reserve Board to certify prior to the exchange that the exchange and distribution were necessary or appropriate to effectuate the Bank Holding Company Act. In the interest of flexibility, proposed section 1121(c) would only require the certification prior to the distribution to the stockholders and not prior to the initial exchange with the subsidiary.

Third, proposed sections 1121(a)(3) and 1121(b)(3) would allow non pro rata distributions to qualify for nonrecognition treatment. Non pro rata distributions were allowed under the Bank Holding Company Act of 1956, but pro rata distributions were required for distributions under the 1966 amendment to the Bank Holding Company Act. Allowing non pro rata distributions under the proposed bill is consistent with the rules of section 355 of the Internal Revenue Code which allow a non pro rata distribution of stock of a controlled subsidiary to be made to the stockholders of the parent corporation without the recognition of gain under certain circumstances.

Fourth, the bill allows a bank holding company to divest its banking assets without the recognition of gain even if it owns less than a controlling interest. This treatment complies with the spirit of the 1970 amendments which is to encourage and enforce the separation of banking and nonbanking interests and alleviates the sometimes difficult problem of attempting to determine precisely what constitutes a controlling interest in a bank.

The bill also would permit a "grandfathered" company -- which under section 103 of the Bank Holding Act Amendments of 1970 is allowed to continue to hold bank and nonbank interests -- to give up its grandfathered status, divest its bank or nonbank interests, and be entitled to the tax relief that is available to other holding companies that became bank holding companies under the 1970 amendments, provided that such divestiture is accomplished by January 1, 1981.

However, nonrecognition treatment generally does not apply to the distribution of nonbank property which may be lawfully owned by a bank holding company. For example, section 4(c)(6) of the Bank Holding Company Act permits a bank holding company to retain up to five percent of the voting stock of another company. 12 U.S.C. 1843(c)(6). Consequently, a distribution of all the stock of another company which is wholly owned would result in nonrecognition of gain under this bill as to only 95 percent of such distribution. But nonrecognition of gain may be obtained under section 355 with respect to the five percent not qualifying for nonrecognition under section 1121.

Fifth, proposed section 1121(e) introduces a time limit for nonrecognition treatment which requires a distribution to the stockholder of prohibited property or bank property to be completed within three years after the first distribution of such property is made.

Sale of Bank or Nonbank Property

Section (b) of the proposed bill would add section 1122 to the Internal Revenue Code dealing with sales pursuant to the Bank Holding Company Act Amendments of 1970. The section would provide for the nonrecognition of gain where a corporation sells its bank or nonbank property to a third party rather than distributing the property to its stockholders. This type of relief was not offered for distributions under the Bank Holding Company Act of 1956 or its 1966 amendment. However, various bank holding companies have indicated that they will be forced for various business reasons to sell their bank or nonbank assets rather than distribute them to their stockholders. Tax relief appears equally warranted where the provisions of the Bank Holding Company Act are met

by the sale of assets instead of their distribution to stockholders.

Section 1033 of the Internal Revenue Code presently provides for the nonrecognition of gain in the case of the compulsory or involuntary conversion of property. Section 1071 of the Code provides for the nonrecognition of gain from a sale or exchange to effectuate certain policies of the Federal Communications Commission. Section 1081 of the Code provides for the nonrecognition of gain on exchanges or distributions in obedience to certain orders of the Securities and Exchange Commission.

In many respects the required divestiture of bank or nonbank property under the Bank Holding Company Act Amendments of 1970 is analogous to an involuntary conversion. Accordingly, proposed section 1122 would offer relief patterned after the existing provisions in the Code dealing with involuntary conversions.

Thus, proposed section 1122 would allow a bank holding company to elect to defer the recognition of gain on a divestiture sale if the amount realized from the sale is reinvested in certain qualifying replacement property within a specified period of time.

In order to qualify under this provision, a bank holding company which sells either its bank property or its nonbank property would have to invest the proceeds of sale in the purchase of a controlling (80 percent) stock interest in another corporation or in the purchase of substantially all the assets of another corporation. For this purpose control would be determined without regard to whether or not the acquiring corporation had control of the acquired corporation immediately before the purchase, so that a corporation could reinvest in additional stock of one of its controlled subsidiaries. The required reinvestment could be made in anticipation of the divestiture sale or within three years after the sale, with provision for the extension of this period by the Secretary or his delegate for reasonable cause.

The basis of any stock or assets which are acquired under this proposal as replacement property would be reduced by the amount of deferred gain. Where stock of another

corporation is acquired, the basis of the underlying assets of the acquired corporation would also be reduced by the amount of the deferred gain, but not below the greater of the basis of the stock which is acquired or the basis of the old assets which were sold pursuant to the Bank Holding Company Act.

The proposal would only apply to the sale of property which was acquired before July 7, 1970 and which the Federal Reserve Board, prior to the sale, certifies is necessary or appropriate to effectuate the Bank Holding Company Act Amendments of 1970.

Amendment to Section 311(d) of the Code

Section 311(d) of the Internal Revenue Code generally requires a corporation to recognize gain where it distributes appreciated property to its stockholders in redemption of their stock. The proposed legislation would make clear that section 311(d) of the Internal Revenue Code would not apply to a bank holding company which distributes appreciated property under the Bank Holding Company Act Amendments of 1970 to its stockholders in redemption of their stock. The proposed exception for distributions under the Bank Holding Company Act is consistent with the present exception in section 311(d) for certain distributions of stock required under the antitrust laws.

The Department of the TREASURY

INGTON, D.C. 20220 TELEPHONE W04-2041

NEWS

FOR IMMEDIATE RELEASE January 31, 1972

WITHHOLDING OF APPRAISEMENT ON RAILROAD PASSENGER VEHICLES FROM CANADA

Assistant Secretary of the Treasury Eugene T. Rossides announced today that the Bureau of Customs is instructing Customs field officers to withhold appraisement of railroad passenger vehicles from Canada 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 then consider whether an American industry was being injured. Both dumping margins and injury must be shown to justify a finding of dumping under the law.

Railroad passenger vehicles valued at approximately $8,400,000 have been ordered in Canada for importation into the United States.

# # #

The Department of the TREASURY

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NEWS

STATEMENT BY THE HONORABLE JOHN B. CONNALLY
SECRETARY OF THE TREASURY
BEFORE THE HOUSE COMMITTEE ON WAYS AND MEANS
MONDAY, JANUARY 31, 1972, 10:00 A.M.

Mr. Chairman and Members of this distinguished Committee:

The borrowing authority which the Congress last year provided the Treasury Department will shortly be exhausted. I am therefore requesting that the present temporary debt limit of $430 billion be increased promptly to $480 billion. On the basis of our current estimates, this will be sufficient to carry us through the balance of the current fiscal year and to about this time next year. At that time it will again be appropriate to review the financing requirements of the Government.

The President's fiscal 1973 budget projects, on the unified budget basis, a deficit of $38.8 billion for fiscal 1972 and a deficit of $25.5 billion for fiscal 1973.

These are huge deficits and no one can be happy about them. However, Federal budgets must be analyzed in the context of economic conditions and national objectives. The pace of our economic growth, while now substantial, has not been fast enough to produce the desired reduction in unemployment. Our objective therefore is to stimulate economic growth -- sustainable economic growth -- in order to reduce unemployment, while at the same time continuing to brake inflation.

We believe that the spending and taxing decisions set forth in the budget are appropriate in the light of present circumstances and objectives. Moreover, if this plan is carried out with discipline and determination it will help lead to an improved budget position as we achieve our national goals.

Our fiscal 1972 budget deficit, projected at $38.8 billion, is substantially higher than the original estimate of $11.6 billion made in January, 1971. The figures represent an adverse swing of $27.2 billion. The major portion of the change -- $19.8 billion of it -- results from a shortfall in estimated revenues. Some of this shortfall, $6.7 billion, reflects tax changes not contemplated in the budget a year ago. But apart from the consequences of legislation, our economic forecast for calendar 1971 -- on which the fiscal 1972 budget was based -- was simply too optimistic. Total GNP, personal income and corporate profits were all significantly below forecast. As a result tax collections are falling short in most categories including the big items: personal and corporate income taxes.

On the expenditures side, which Director Shultz will discuss in detail, we are projecting in the current fiscal year expenditures of $236.6 billion or $7.4 billion above the original estimate.

For fiscal 1973, we are estimating outlays of $246.3 billion, only 4% higher than this year. At the same time, revenues are anticipated to rise to $220.8 billion, which results in a unified budget deficit of $25.5 billion.

This budget will return us to a "full employment" balance. In other words, budget expenditures are set at a level which is about equal to the revenues our present tax structure would produce at "full employment" of our economic resources. While actual full employment is not a realistic expectation for fiscal 1973, if expenditures can be held on this path, the deficit will shrink as the economy grows, and will disappear when we fully achieve our goals.

The size of the debt ceiling increase needed is determined not only by the results of the Unified Budget (which reflects transactions with the general public) but also by the amount of Treasury debt held by the Federal trust funds and other government agencies. Since the trust funds are in substantial surplus and therefore acquiring Treasury debt, the necessary increase must be in excess of the size of the Unified Budget deficit. Changes in the debt are more closely reflected in the so-called Federal Funds Budget -- which excludes the operations of the trust funds.

As the budget document shows, the Federal fund deficits for fiscal 1972 and 1973 are now estimated at $44.7 billion and $36.2 billion, respectively. As shown in Tables I and II, these forecasts can be translated into estimated Federal debt subject to limitation. On the assumption of a constant six billion cash balance, our peak fiscal 1972 level is $450 billion. By early 1973, this level, including the usual $3 billion allowance for contingencies, will rise to around $480 billion.

I am for this reason proposing to this Committee that a new temporary debt limit be set at a minimum of $480 billion for the period through June 30, 1973. I recognize that this ceiling will probably not be adequate to meet our requirements beyond February of 1973. However, that should be an appropriate time to review the budget and debt limit situation with you, against the background of actual experience in the first half of fiscal 1973 and in relation to the fiscal 1974 budget outlook.

I shall not belabor the consequences for the Nation if the Treasury's borrowing capacity should be exhausted. A failure to obtain an increase in the debt limit will in a very short time force us to move to costly and uneconomic expedients to meet our obligations, and then to an abrupt cutting off of Government expenditures. As Secretary of the Treasury, I do not wish to contemplate such a possibility. Therefore, as our projections indicate, it is essential that the Congress take action to lift the debt limit in time for us to arrange an early March borrowing.

Responsible financing of the budget is a primary goal of mine and in this connection, you may be interested in the use that has been made so far of the authority which Congress granted last year to issue Treasury bonds with coupons in excess of 4-1/4 percent. We have moved with great care to take the first steps to restore a broad market for longer-term Treasury securities in order to improve the structure of the debt. Following two issues of about one half billion each to private holders in 1971, we have just announced our third issue of longer-term securities. It is in the form of a new 10-year bond, offered in exchange for

securities maturing this February 15th and to advance refund securities maturing in the first half of 1974.

Our use of this authority has been cautious since we are determined not to engage in Treasury financing operations which would disturb credit markets or make more difficult the achievement of the economic goals of this Administration. I think I can say without equivocation that our first steps have had no such adverse consequences. Indeed, we are now reassured that we can proceed with a moderate amount of long-term bond sales without undesirable consequences.

In the context of this review of our debt situation, I would also like to emphasize the importance of setting an effective limit on budget expenditures. It is the firm policy of this Administration, as enunciated by the President in his Budget Message that "Except in emergency conditions, expenditures should not exceed the level at which the budget would be balanced under conditions of full employment." This concept of a full employment balance was central to the budget decisions for fiscal 1973. Its meaning is simple. If one adheres to that objective, our deficits will disappear as the slack in the economy disappears.

Success in this effort is essential if our progress against inflation is not to be jeopardized. The result can and will be achieved by exercising vigorous restraint on spending. Our deficits must be reduced.

I believe a tight, effective, overall limit on expenditures, binding on both the Executive Branch and the Congress would help assure that goal.

TABLE I

PUBLIC DEBT SUBJECT TO LIMITATION

FISCAL YEAR 1972
($ Billions)

1971	Operating Cash Balance	Public Debt Subject to Limitation
ACTUAL		
June 30	8.7	399.5
July 15	7.3	407.3
July 30	7.1	406.6
August 16	4.6	410.8
August 31	9.4	415.9
September 15	5.5	416.2
September 30	9.9	413.6
October 15	4.6	413.9
October 29	6.5	413.3
November 15	4.1	416.5
November 30	4.2	416.0
December 15	5.2	422.2
December 31	11.2	425.5
1972		
January 17	7.4	426.4
January 27	11.2	427.3
ESTIMATED (Based on constant minimum cash balance of $6.0 billion)		
February 15	6.0	425.6
February 29	6.0	427.2
March 15	6.0	435.9
March 31	6.0	432.8
April 17	6.0	440.3
April 28	6.0	432.3
May 15	6.0	440.8
May 31	6.0	442.1
June 15	6.0	450.0
June 30	6.0	443.4

TABLE II

ESTIMATED PUBLIC DEBT SUBJECT TO LIMITATION

FISCAL YEAR 1973
($ Billions)

1972	Debt with $6.0 cash balance	With $3.0 margin for contingencies
June 30	443.4	446.4
July 17	450.0	453.0
July 31	453.0	456.0
August 15	457.5	460.5
August 31	461.1	464.1
September 15	462.3	465.3
September 29	457.9	460.9
October 16	461.0	464.0
October 31	462.1	463.1
November 15	466.3	469.3
November 30	468.7	471.7
December 15	469.7	472.7
December 29	469.8	472.8
1973		
January 15	470.8	473.8
January 31	470.6	473.6
February 15	475.3	478.3
February 28	478.1	481.1
March 16	483.1	486.1
March 30	482.5	485.5
April 16	484.5	487.5
April 30	478.2	481.2
May 15	483.8	486.8
May 31	486.8	489.8
June 15	486.0	489.0
June 29	479.3	482.3

January 19, 1972

TABLE III

Budget Receipts, Outlays and Surplus or Deficit (-) By Fund

	Fiscal Year		
	1971 (actual)	1972 (estimated)	1973 (estimated)
	(in billions)		
Receipts			
Trust Funds	66.2	73.2	83.2
Federal Funds	133.8	137.8	150.6
Deduct: Intragovernmental Receipts	-11.6	-13.1	-13.0
Total Unified Budget	188.4	197.8	220.8
Outlays			
Trust Funds	59.3	67.2	72.5
Federal Funds	163.7	182.5	186.8
Deduct: Intragovernmental Outlays	-11.6	-13.1	-13.0
Total Unified Budget	211.4	236.6	246.3
Budget Surplus (+) or Deficit (-)			
Trust Funds	+6.9	+5.9	+10.7
Federal Funds	-29.9	-44.7	-36.2
Total Unified Budget	-23.0	-38.8	-25.5

Unified Budget Receipts
Outlays and Deficits (-)

($ billions)

	Fiscal Year 1972					
	January 1971 estimate	Change to September 1971 estimate	September 1971 estimate	Change to January 1972 estimate	January 1972 estimate	Change to January 1972 over January 1971
pts	217.6	-13.1	204.5	-6.6	197.8	-19.8
ys	229.2	+ 2.8	232.0	+4.6	236.6	+ 7.4
it	-11.6	-15.9	-27.5	-11.2	-38.8	-27.2

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January 19, 1972

:e: Figures are rounded and may not necessarily add to totals.

TABLE V

Changes in estimates of Fiscal Year 1972 Receipts from January 1971 Budget Document

($ Billions)

	January 1971 budget	Change to September Estimate: Economic and re-estimate	Change to September Estimate: Legislation	Change to September Estimate: Other 1/	Change to September Estimate: Total	September 1971 Estimate	Change to January 1972 Budget: Economic and re-estimate	Change to January 1972 Budget: Legislation	Change to January 1972 Budget: Other 1/	Change to January 1972 Budget: Total	January 1972 budget
Individual income tax	93.7	-2.4	-1.3	+0.7	-3.0	90.7	-1.1	-0.6	-2.5	-4.2	86.5
Corporation income tax	36.7	-4.6	-2.2	--	-6.8	29.9	-2.0	+2.2	--	+0.2	30.1
Employment taxes and contributions	50.2	-0.8	-1.7	--	-2.5	47.7	-0.4	-0.9	--	-1.3	46.4
Unemployment insurance	4.2	--	--	--	--	4.2	--	--	+0.2	+0.2	4.4
Contributions for other insurance and retirement	3.2	--	--	--	--	3.2	--	--	+0.2	+0.2	3.4
Excise taxes	17.5	-0.1	-2.2	--	-2.3	15.2	+0.3	-0.3	--	--	15.2
Estate and gift taxes	5.3	-0.1	--	--	-0.1	5.2	--	--	--	--	5.2
Customs duties	2.7	-0.1	+1.7	--	+1.6	4.3	+0.1	-1.2	--	-1.1	3.2
Miscellaneous receipts	4.1	--	--	--	--	4.1	--	-0.2	-0.4	-0.6	3.5
Total budget receipts	217.6	-8.1	-5.7	+0.7	-13.1	204.5	-3.1	-1.0	-2.5	-6.6	197.8

Underlying Income Assumptions - Calendar Year 1971

	January 1971 budget	January 1972 budget
GNP	1065	1047
Personal income	868	857
Corporate profits before tax	98 2/	85

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January 28, 1972

1/ Change in capital gains tax estimate.

2/ Before the effect of ADR.

3/ After the effect of ADR. Before the effect of ADR, the estimate would be $85.9 billion.

Note: The figures are rounded and may not necessarily add to

TABLE VI

Comparison of Fiscal Year 1972 Receipts -- as Estimated in January 1971 and in January 1972

($ billions)

	January 1971 budget	Change to January 1972 Budget: Economic and re-estimate	Legislation	Other	Total	January 1972 budget
.vidual income tax	93.7	-3.5	-1.9	-1.8 1/	-7.2	86.5
poration income tax	36.7	-6.6	--	--	-6.6	30.1
loyment taxes and contributions	50.2	-1.2	-2.6	--	-3.8	46.4
nployment insurance	4.2	--	--	+0.2	+0.2	4.4
tributions for other insurance nd retirement	3.2	--	--	+0.2	+0.2	3.4
ise taxes	17.5	+0.2	-2.5	--	-2.3	15.2
ate and gift taxes	5.3	-0.1	--	--	-0.1	5.2
toms duties	2.7	--	+0.5	--	+0.5	3.2
cellaneous receipts	4.1	--	-0.2	-0.4	-0.6	3.5
Total budget receipts	217.6	-11.2	-6.7	-1.8	-19.7	197.5

Underlying Income Assumptions - Calendar Year 1971

	January 1971	January 1972
NP	1065	1047
Personal income	868	857
Corporate profits before tax .	98 2/	85 3/

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January 28, 1972

1/ Change in capital gains tax estimate.

2/ Before the effect of ADR.

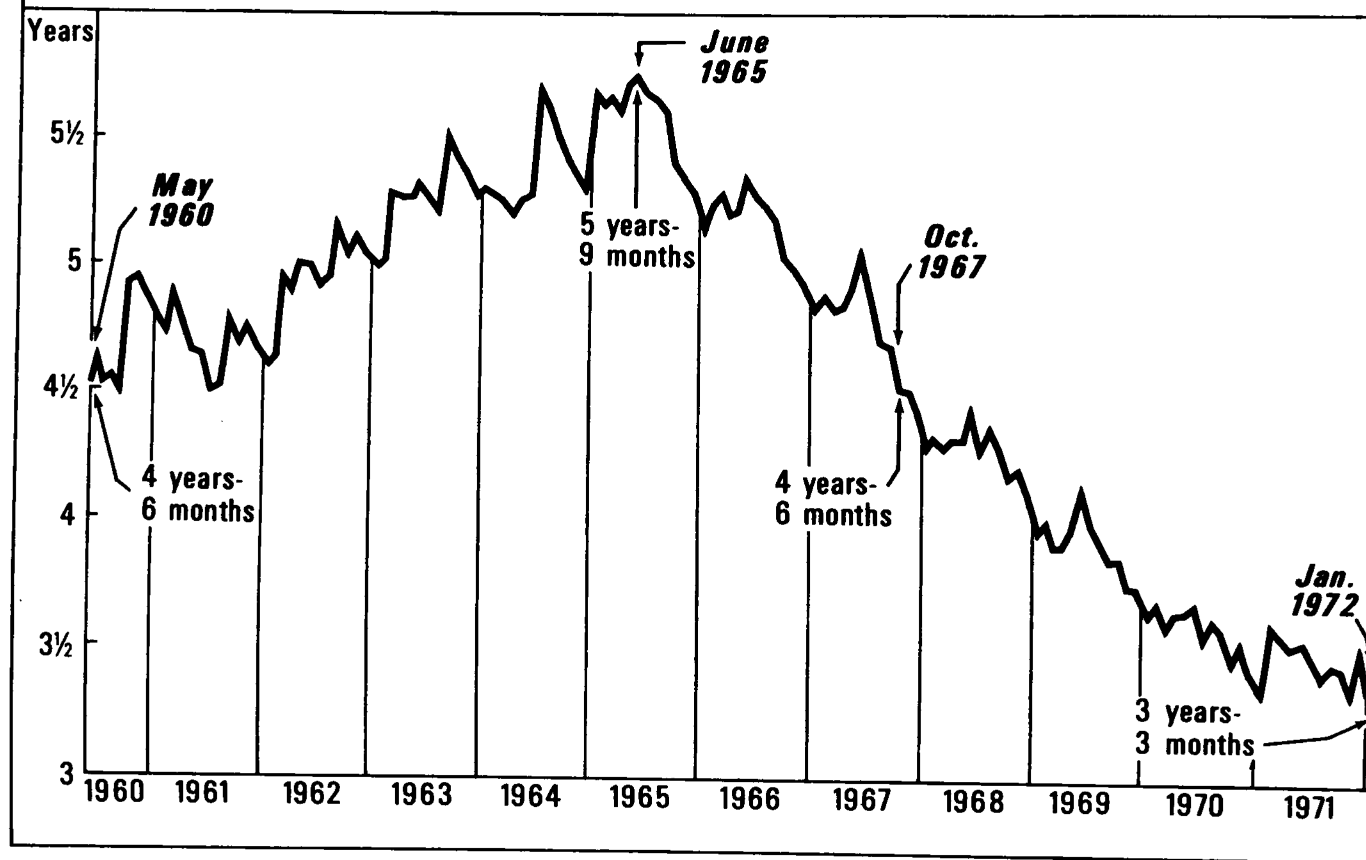
3/ After the effect of ADR. Before the effect of ADR the estimate would be $85.9 billion

Note: The figures are rounded and may not necessarily add to totals.

Chart 1

AVERAGE LENGTH OF THE MARKETABLE DEBT

Privately Held



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Jan. 31, 72.-1

Chart 2

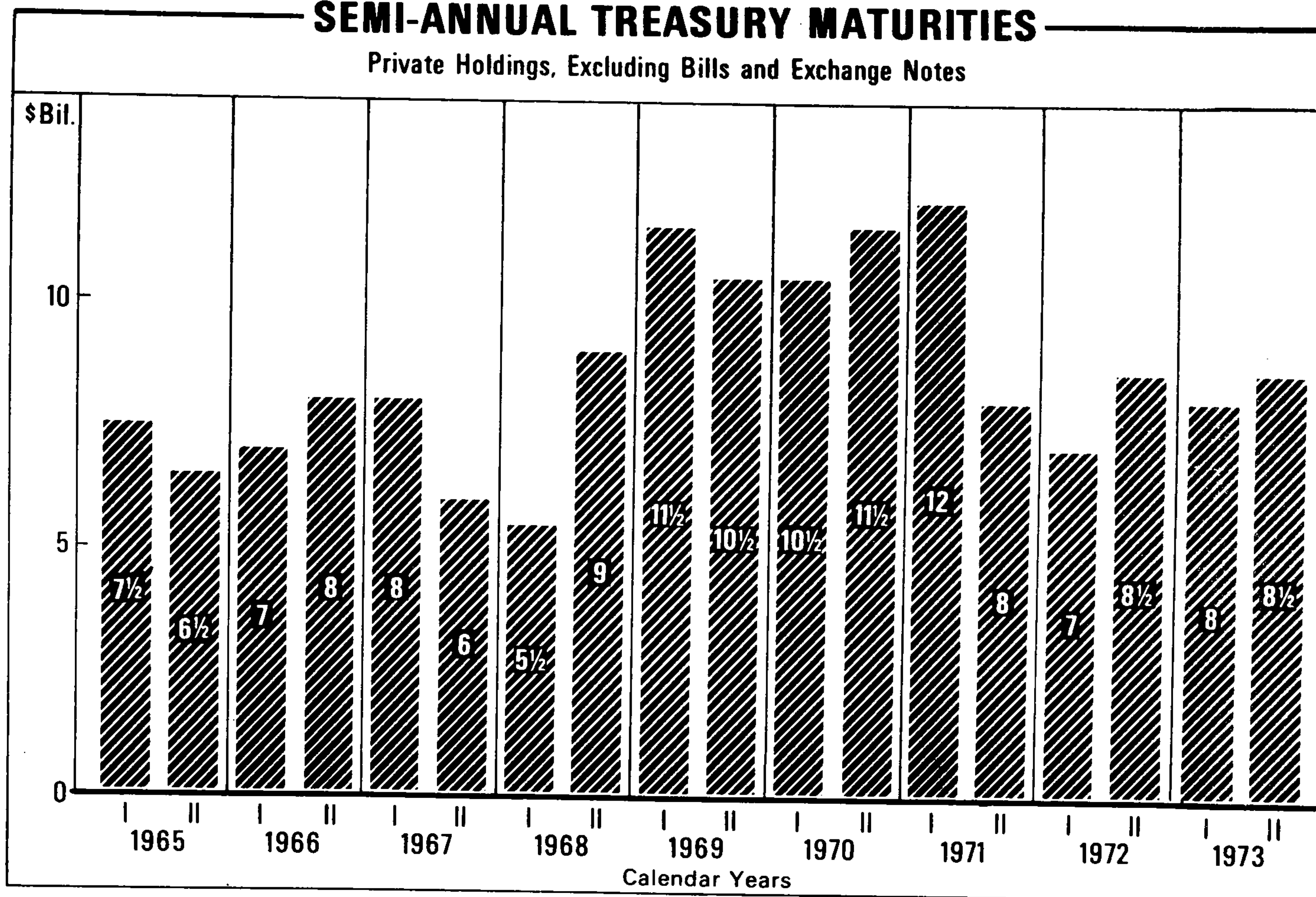

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Chart 3

UNDER 1-YEAR TREASURY MARKETABLE DEBT BY TYPE

Privately Held

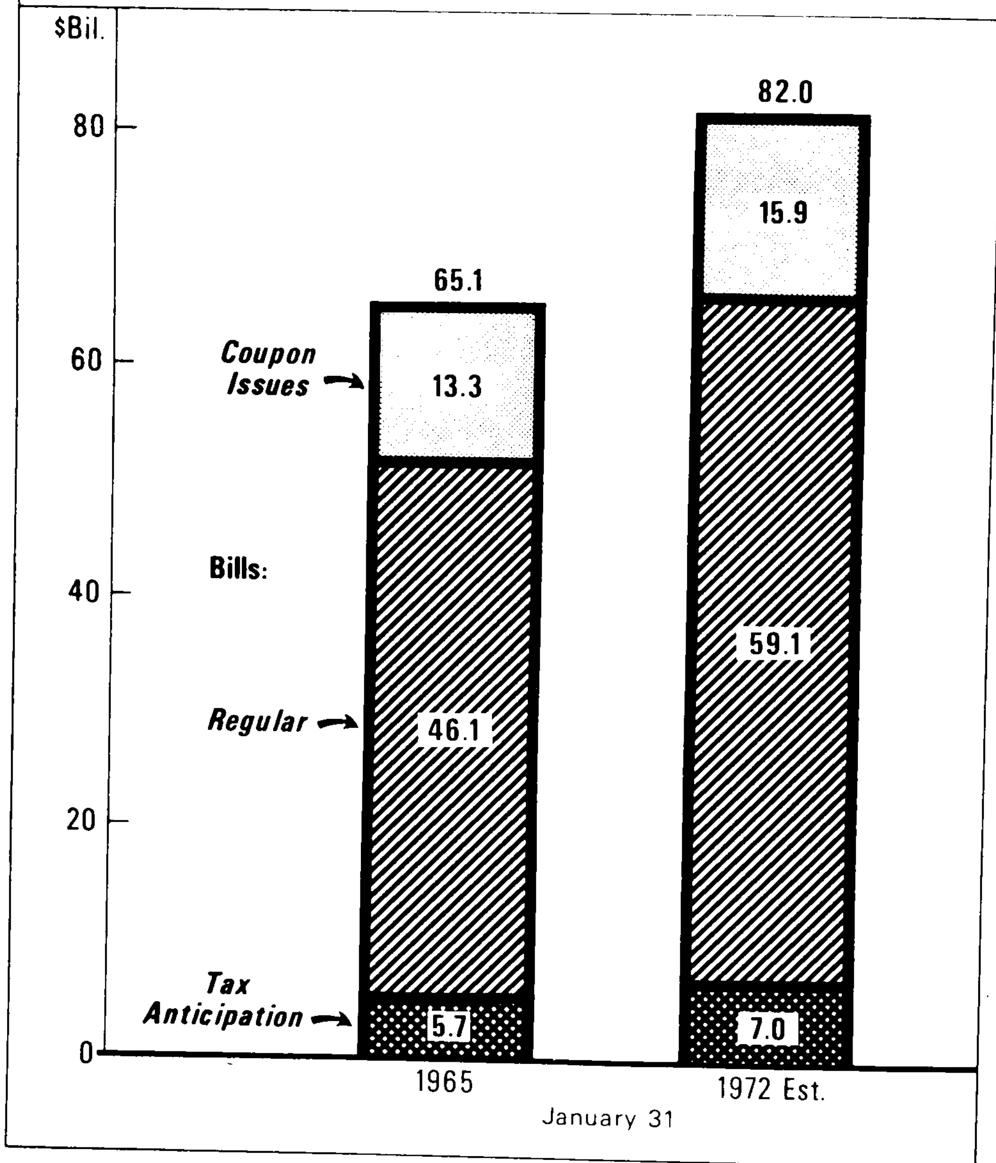

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Chart 4

1 TO 7 YEAR TREASURY MARKETABLE DEBT

Privately Held

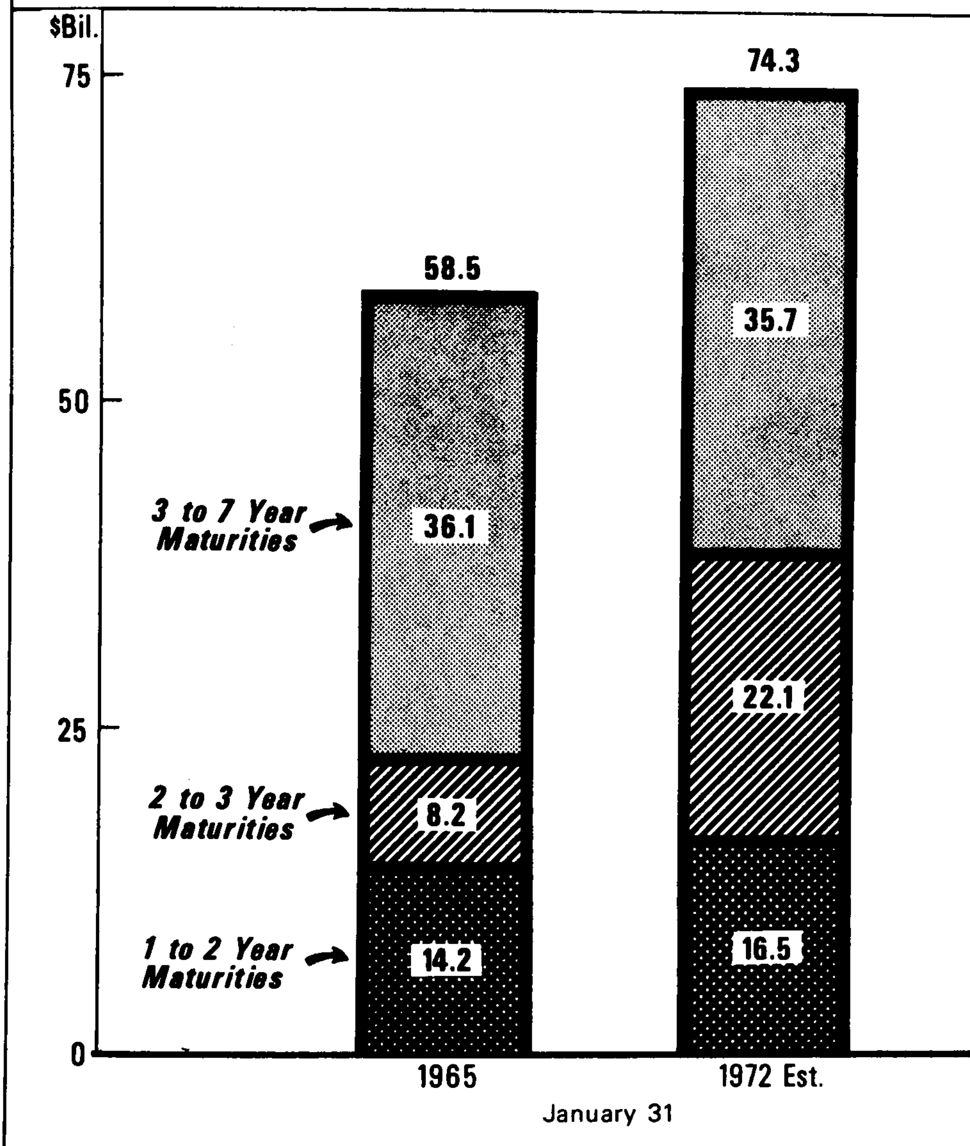

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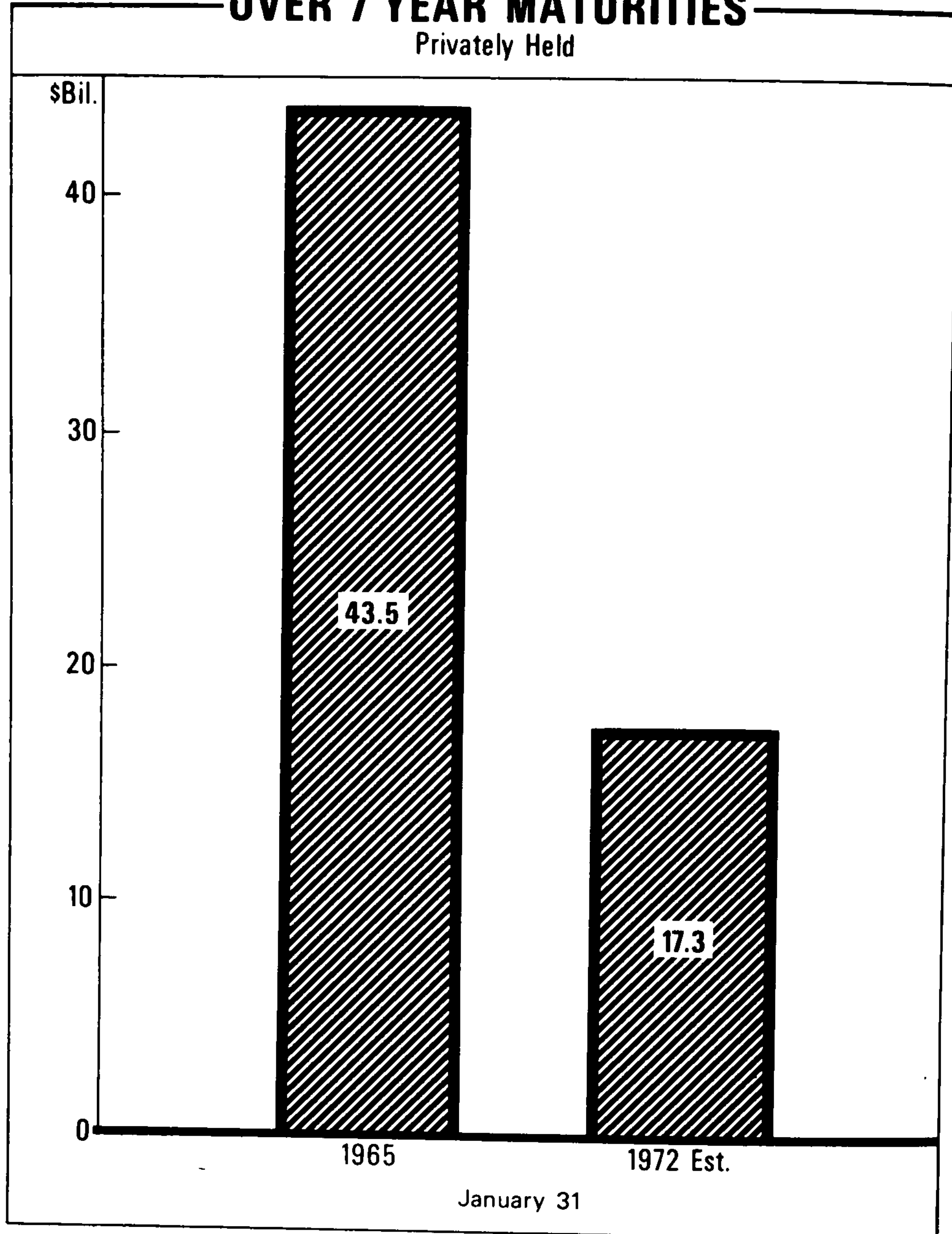
Chart 5

OVER 7 YEAR MATURITIES

Privately Held



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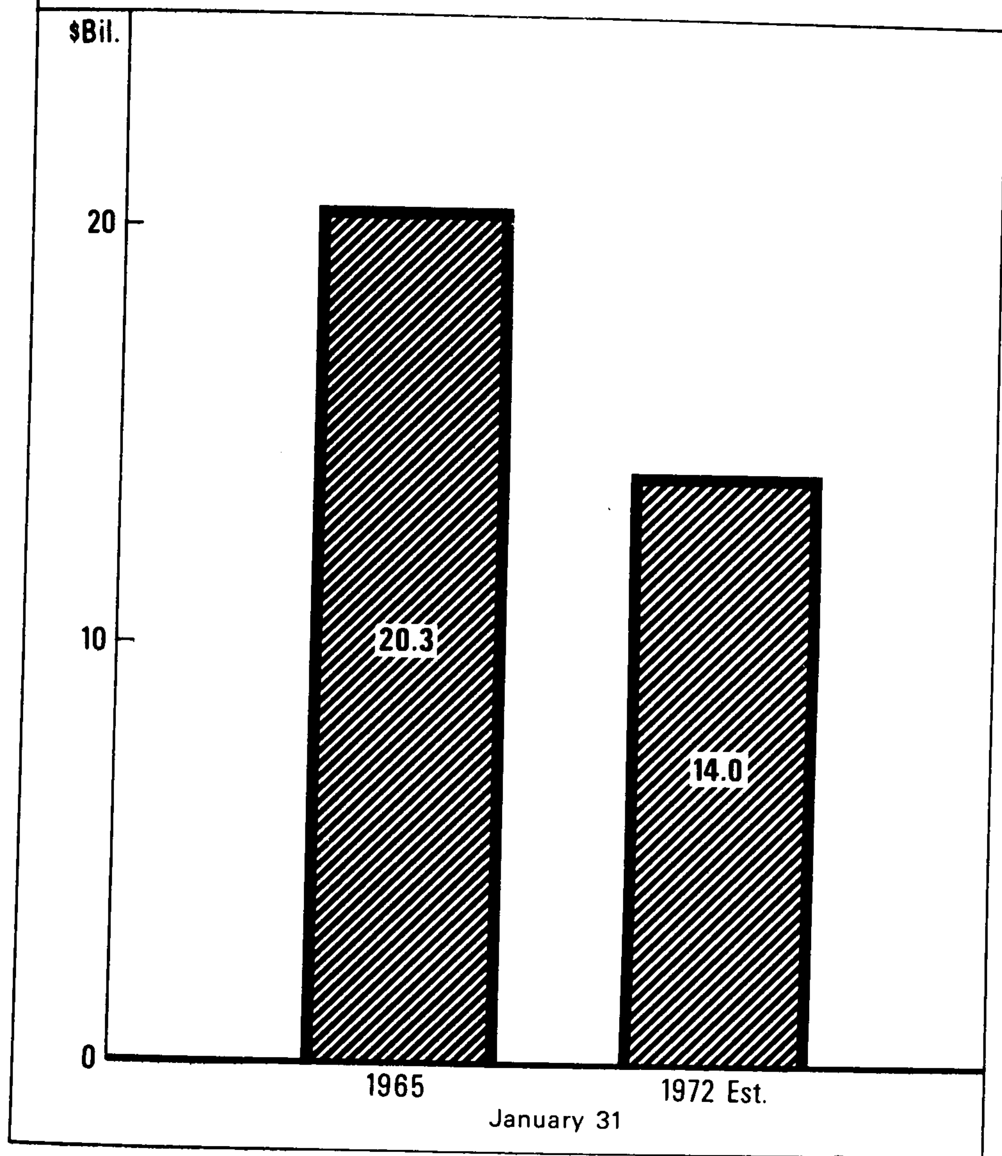
Jan. 31, 72-5

Chart 6

OVER 10 YEAR MATURITIES

Privately Held



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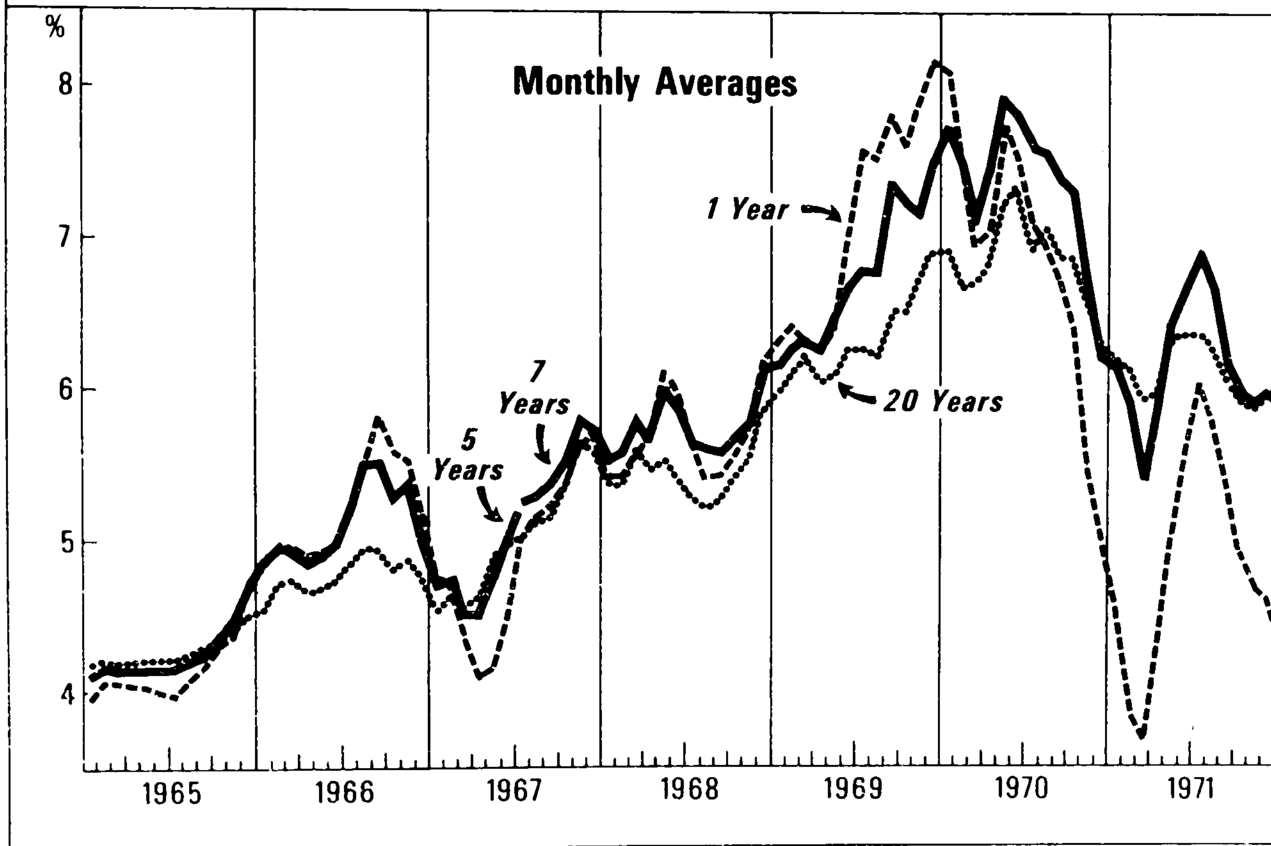
Jan. 31, 72-6

Chart 7

TREASURY MARKET YIELDS

January 1965 to Date



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The Department of the TREASURY

ASHINGTON, D.C. 20220 TELEPHONE W04-2041

NEWS

ENTION: FINANCIAL EDITOR

RELEASE 6:30 P.M., January 31, 1972

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 4, 1971 , and other series to be dated February 3, 1972 , which were offered on January 25, 1972, e opened at the Federal Reserve Banks today. Tenders were invited for $ 2,300,000,000 thereabouts, of 91 -day bills and for $1,600,000,000 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 4, 1972		182-day Treasury bills maturing August 3, 1972	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv. Annual Rate
High	99.160	3.323%	98.130	3.699%
Low	99.142	3.394%	98.097	3.764%
Average	99.149	3.367% 1/	98.113	3.733% 1/

76% 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

AL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

istrict	Applied For	Accepted	Applied For	Accepted
oston	$ 36,420,000	$ 25,225,000	$ 16,225,000	$ 1,225,000
ew York	3,152,695,000	1,908,275,000	2,266,615,000	1,349,415,000
hiladelphia	26,460,000	11,460,000	5,190,000	5,190,000
leveland	32,855,000	27,625,000	24,585,000	24,585,000
ichmond	34,665,000	13,465,000	4,195,000	4,195,000
tlanta	40,565,000	25,085,000	28,620,000	14,120,000
hicago	268,035,000	142,335,000	269,980,000	142,980,000
t. Louis	39,885,000	34,885,000	15,540,000	9,040,000
inneapolis	28,685,000	18,685,000	21,875,000	13,875,000
ansas City	37,735,000	27,535,000	18,050,000	10,050,000
allas	35,490,000	13,490,000	29,025,000	7,025,000
an Francisco	113,000,000	52,410,000	102,325,000	18,325,000
TOTALS	$3,846,490,000	$2,300,475,000a/	$2,802,225,000	$1,600,025,000b/

Includes $211,340,000 noncompetitive tenders accepted at the average price of 99.149
Includes $ 74,535,000 noncompetitive tenders accepted at the average price of 98.113
These rates are on a bank discount basis. The equivalent coupon issue yields are 3.45 % for the 91 -day bills, and 3.87% for the 182-day bills.

The Department of the TREASURY

WASHINGTON, D.C. 20220 TELEPHONE W04-2041

NEWS

FOR IMMEDIATE RELEASE February 1, 1972

TREASURY DISCONTINUES ANTIDUMPING INVESTIGATION OF BHT (BUTYLATED HYDROXYTOLUENE) FROM JAPAN

The Treasury Department announced today a final discontinuance of its antidumping investigation of BHT (butylated hydroxytoluene) from Japan. BHT is a benzenoid chemical product used as an antioxidant in jet fuels, rubber, food packaging, animal feeds, and petroleum products. The decision will be published in the Federal Register of February 2, 1972.

On December 15, 1971, the Department published a tentative discontinuance notice after formal assurances were received from the exporters that they will make no future sales or shipments of BHT, or other antioxidants having BHT as their main component, to the United States. This notice also invited submissions of written views and/or requests for an opportunity to present views orally. No submissions or requests were received.

During the period from July 1970 through November 1971, imports of BHT from Japan were valued at approximately $1,125,000.

# # #

The Department of the TREASURY

WASHINGTON, D.C. 20220 TELEPHONE W04-2041

NEWS

FOR IMMEDIATE RELEASE February 1, 1972

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 $3,900,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing February 10, 1972, in the amount of $3,900,325,000, as follows:

91-day bills (to maturity date) to be issued February 10, 1972 in the amount of $2,300,000,000, or thereabouts, representing an additional amount of bills dated November 11, 1971, and to mature May 11, 1972 (CUSIP No.912793 NAO), originally issued in the amount of $1,600,710,000, the additional and original bills to be freely interchangeable.

182- day bills, for $1,600,000,000, or thereabouts, to be dated February 10,1972, and to mature August 10, 1972 (CUSIP No. 912793 NY8).

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, February 7, 1972. Tenders will not be received at the Treasury Department, Washington. Each tender must be for a minimum of $10,000. Tenders over $10,000 must be in multiples of $5,000. In the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e.g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

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

submit tenders except for their own account. Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of Treasury bills applied for, unless the tenders are 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 announcemen 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 10, 1972, in cash or other immediately available funds or in a like face amount Treasury bills maturing February 10, 1972. 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 paid for the bills, whether on original issue or on subsequent purchase, and 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 from any Federal Reserve Bank or Branch.

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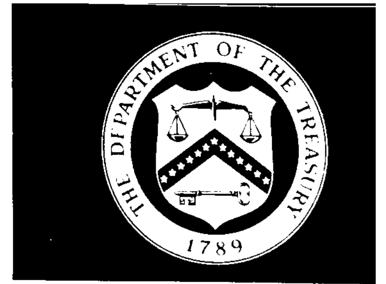
The Department of the TREASURY
WASHINGTON, D.C. 20220 TELEPHONE W04-2041
NEWS



FOR RELEASE ON DELIVERY

STATEMENT BY THE HONORABLE CHARLS E. WALKER
UNDER SECRETARY OF THE TREASURY
BEFORE
THE SENATE COMMITTEE ON APPROPRIATIONS
WEDNESDAY, FEBRUARY 2, 1972, 9:30 A.M., EST

Mr. Chairman and Members of this Distinguished Committee:

I am pleased to appear before you today to discuss certain aspects of our budgetary position, especially the revenue outlook, and to comment briefly on the international financial situation.

The tables appended to my statement present the revenue side of the Federal Budget in considerable detail, so I will merely touch on a few of the highlights.

Our current estimates show a moderate gain in tax receipts in fiscal 1972 and a large increase in fiscal 1973. The total for the current fiscal year is $197.8 billion--$9.4 billion above last year. This increase is only about half of what we would expect from the growth in the economy this year. The short-fall is primarily due to tax reductions.

Unified budget receipts in fiscal 1973 are estimated at $220.8 billion, an increase of $23 billion over fiscal 1972. This estimate is based on the expectation that the GNP in calendar 1972 will total $1145 billion, an increase of $98 billion over calendar 1972. This contrasts with a GNP increase of $72.5 billion in calendar 1971 over 1970. Personal income in 1972 is expected to be up 8 percent--to $924 billion--and corporate profits before taxes are estimated to rise 16 percent to $99 billion.

The substantial rise in budget receipts from fiscal 1972 to 1973 will result mainly from the strong and balanced expansion in economic activity expected in the next year and a half. Personal and corporate tax cuts in 1973 are approximately offset by scheduled increases in social security taxes.

Although the projected Federal Budget will require somewhat less borrowing in fiscal 1973 as compared with the current year, we will require a substantial increase in the debt limit. The Ways and Means Committee is now considering a Treasury request to increase the debt limit by $50 billion, an amount that should be adequate to meet our needs into the early months of 1973.

I am sure that this Committee is, as we are, deeply concerned about the large deficits in prospect for fiscal 1972 and 1973. No one can be happy about deficits of this size. Yet they must be analyzed in the light of our current economic circumstances.

Although we have had very robust gains in the employment totals in recent months--1.7 million persons added to the payrolls since June--the unemployment rate is still in the neighborhood of 6 percent. That is a rate that is not acceptable to this Administration. There is slack and excess capacity in the economy. At this time, an attempt to balance the budget by cutting spending or raising taxes would risk impeding the business advance and reduction in unemployment we seek. On the inflation front, we are making progress, and conditions are favorable for continuing that progress. The financing needs arising from the deficit will be manageable, given this economic background, the relatively good supply of funds in the market, and prevailing monetary conditions.

In these circumstances, the deficits in our 1972 and 1973 budgets are bearable. They are an inevitable price for what we want to do. They are, in fact, a reflection of a coordinated program that is designed--along with an appropriate monetary policy, manpower programs and other economic policies--to put a significant dent in the unemployment rate in the coming year while making further progress against inflation.

At the same time, it would clearly be foolhardy to fail to face up to the need to discipline Federal spending. For fiscal 1973, the expenditure total is already about equal to the revenues that the present tax structure would produce at full employment. Expenditures should be held to that level to assure that the deficit shrinks and disappears as we reach our economic goals and the economy is operating nearer its capacity. Otherwise, we will jeopardize and even cast away the hard won progress on the inflation front. In this context I urge that this Committee

act upon the President's call for a firm ceiling on spending which would be binding on both the Congress and the Administration.

In view of the developments on the international financial front, it is appropriate to make some assessment of the situation.

We have been encouraged by the views, here and abroad, that the agreement reached at the Smithsonian Institution about six weeks ago represents real progress both for the United States and all other countries.

However, much still remains to be done in the area of monetary reform, trade policy, and defense burden sharing if we are to achieve a more equitable and balanced world payments structure. Much will depend on how well this nation and its trading partners operate our domestic economies.

The negotiations that took place in Rome and here at the Smithsonian represented hard bargaining because vital national interests were affected. And there is no science that can tell with accuracy the precise set of exchange rates needed to assure market stability. But there is a general consensus that a fair blending of competing interests yielded acceptable progress for all.

During the weeks since December 18, the exchange markets have been adjusting progressively to the new circumstances and exchange rates.

Contrary to the expectations of many, there has not been a heavy flow of dollars from foreign central bank reserves since the new rates were established. I do not believe this is cause for concern. It will take some time to unwind. Moreover, interest rates abroad are higher than here in the United States as other countries attempt to deal with inflationary pressures.

Apart from questions concerning short-term flows, there is the question of the impact of the realignment on trade and other elements in our balance of payments. No one should expect a large immediate effect on our trade and other basic elements in our balance of payments position, such as investment and tourism. It is only over an extended period--probably two years or more--that the full effects of the rate exchanges can work their way through the system.

I feel the developments since the Smithsonian Agreement represent a reasonable adjustment to the new situation. But this is only the experience of a few short weeks.

The question of where we go from here is in many ways directly related to the performance of the domestic economy. We must eliminate the slack in our economy with policies for strong and non-inflationary growth. A healthy and growing U.S. economy is vital to a healthy world economy. Without reasonable growth and employment in the United States, a stable international equilibrium is not likely to be achieved--and a resurgence of protectionism would be a danger.

Thus, both our balance of payments and our domestic objectives call for policies of expansion and for the containment of inflation. Those are the policies we are now following because we believe there is room in the economy to allow for expansion without inflation.

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Budget Receipts

Under Legislation Proposed in Fiscal 1973 Budget Document
Fiscal Years

($ billions)

	Actual	Estimated	
	1971	1972	1973
Individual income tax	86.2	86.5	93.9
Corporation income tax	26.8	30.1	35.7
Employment taxes and contributions	41.7	46.4	55.1
Unemployment insurance	3.7	4.4	5.0
Contributions for other insurance and retirement	3.2	3.4	3.6
Excise taxes	16.6	15.2	16.3
Estate and gift taxes	3.7	5.2	4.3
Customs duties	2.6	3.2	2.8
Miscellaneous receipts	3.9	3.5	4.1
Unified budget receipts	188.4	197.8	220.8
Deduct:			
Trust funds, etc.	54.6	60.0	70.2
Federal funds receipts	133.8	137.8	150.6

Underlying Economic Assumptions - Calendar Years

	1970	1971	1972
GNP	974	1047	1145
Personal income	804	857	924
Corporate profits before tax	75	85	99

Projected Changes in Budget Receipts
Fiscal Years 1972-1973

	(In billions of dollars) Fiscal 1972 from Fiscal 1971	Fiscal 1973 from Fiscal 1972
Revenue changes traceable to:		
Economic growth	+17.6	+24.0
Tax Reform Act of 1969	- 2.7	- 2.5
Revenue Act of 1971	- 4.4	- 2.5
Changes in Depreciation Regulations	- 3.0	- 0.2
Social Security changes, enacted and proposed	+ 2.1	+ 6.4
Other changes	- 0.2	- 2.2
Total	+ 9.4	+23.0

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

NEWS

FOR IMMEDIATE RELEASE

February 2, 1972

TREASURY SAYS ASBESTOS-CEMENT PIPE FROM JAPAN
IS BEING SOLD AT LESS THAN FAIR VALUE

Assistant Secretary of the Treasury Eugene T. Rossides announced today that asbestos-cement pipe from Japan is being, or is likely to be, sold at less than fair value within the meaning of the Antidumping Act, 1921, as amended. Notice of the determination will be published in the Federal Register of February 3, 1972.

The case will now be referred to the Tariff Commission for a determination as to whether an American industry is being, or is likely to be, injured. In the event of an affirmative determination, dumping duties will be assessed on all entries of asbestos-cement pipe on which dumping margins exist.

The notice of withholding invited interested parties to submit written views or arguments, or requests for an opportunity to present their views orally. Written views were submitted by the complainant and the attorney for one of the Japanese manufacturers. A request by the attorney for one of the Japanese manufacturers to present oral views was later withdrawn.

During the period January 1971 through October 1971, asbestos-cement pipe valued at approximately $1.2 million was imported from Japan.

# # #

UNITED STATES TREASURY DEPARTMENT

- - -

REMARKS OF

HONORABLE JOHN B. CONNALLY,

SECRETARY OF THE TREASURY

BEFORE THE

CHAMBER OF COMMERCE

- - -

January 31, 1972

Pittsburgh, Pennsylvania

- - -

[This transcript was prepared from a tape recording.]

1 SECRETARY CONNALLY: Thank you very much. Please
2 be seated.
3 Bishop Appleyard, Mr. Dorsey, President Holden,
4 President Metcalf, Chairman Harris, members of the Chamber,
5 your guests, ladies and gentlemen.
6 In passing, it is strange to me that you had to get
7 a Texan to introduce me. I suppose he is probably the only
8 fellow around that would be willing to say a few nice things
9 about me.
10 [Laughter.]
11 But I am indeed grateful to you, Bob, for your very
12 kind and very extravagant introduction.
13 You know, when we were coming in to Pittsburgh late
14 this afternoon and driving in, I couldn't help but be reminded
15 of a story that I think might be somewhat appropriate at this
16 moment in time. We saw a lot of snow, which is something
17 unusual for us in Washington, and particularly in South Texas,
18 where we never see it. I was reminded of the incident that
19 occurred in one of our western states when an old rancher
20 came in on Saturday afternoon to do his monthly shopping and
21 ran into a blizzard, so strong, so heavy, the snow banks so
22 high that he couldn't get home so he decided he hadn't been
23 to church for a long time on Sunday morning and he just
24 decided to go when he got there.
25 The weather was so bad and the snow drifts so high

1 that he found himself the only parishoner in the church.
2 Well, this was a very special Sunday and the pastor had pre-
3 pared what he believed to be a very moving and a very eloquent
4 sermon. So they waited quite a while, the old rancher was
5 the only one to show, and the pastor had a great decision to
6 make and he finally made it. He decided he had written the
7 sermon for that particular day and he ought to deliver it,
8 which he did, with great feeling, great emotion.
9 When it was all over, he walked down and shook
10 hands with the old ranger, and he said, "Well, Zeke," he
11 said, "how did you like the sermon?" The old rancher kind
12 of hung his head and said, "Well, Preacher," he said, "I'll
13 tell you." He said, "The best way I could describe it," he
14 said, "you know on a day like this when the weather is bad,"
15 he said, "in this part of the world, I load my pickup up full
16 of hay, and I take it out on the range to feed my cattle."
17 But," he said, "if just one old cow shows up, Preacher, I
18 don't dump the whole load."
19 [Laughter.]
20 Now, unfortunately you gathered a crowd here this
21 evening.
22 [Laughter.]
23 But you are not going to get the whole load, you
24 are just going to get a few remarks, a few things that I
25 would like to say.

1 First, I can't come to this great city without
2 paying my respects and deep admiration to those who have con-
3 tributed so much in the aftermath of World War II to revital-
4 ize and to rehabilitate and to really bring this great city
5 into the rennaissance period of its life.
6 To the Mellons, to your great former Mayor, David
7 Lawrence, to all who have contributed so much to the rebuild-
8 ing of this great golden triangle and all that it means, you
9 should be proud.
10 You have shown the rest of America, the rest of the
11 world what can be done with vision, with foresight, with com-
12 mitment and dedication to improve the surroundings with which
13 we live. And this is a never ending struggle.
14 Pittsburgh, Pennsylvania, the United States, this
15 hemisphere, all of us are now witnessing what I believe to
16 be one of the profound changes in modern times. And frankly,
17 I think that the President on August 15 brought us face to
18 face with reality of modern times in many ways.
19 You all know what occurred. I won't go into it
20 except to allude to a few of the things that he announced on
21 that particular evening. If you will recall, he then put a
22 freeze on this American economy, on the entire economy for
23 90 days. If you will recall, he announced significant
24 changes in the tax structure of this Nation in order to try
25 to stimulate business, to encourage the buying of new plant

1 and equipment, to create jobs for the unemployed in America.

2 You will recall that he suspended the convertibility

3 of the dollar and shook the monetary system of the world,

4 shook nations around the world. These were indeed drastic

5 actions.

6 Many of them are still going on. This Nation still

7 labors under wage and price controls. And some are all too

8 ready, I think, to condemn the imposition and to condemn

9 their continuance, on the basis that we departed from our

10 traditional role of a free enterprise system, and that argu-

11 ment can be made.

12 But let me assure you that I think what the

13 President did on August 15 was a reflection of great percep-

14 tion and understanding of what problems this Nation faced and

15 more than that, it showed great courage to do what he felt

16 was necessary to be done in order to try to right some of

17 the problems of this great land.

18 But even though we today have a continuation of wage

19 and price controls, I am continually asked, "Is it going to

20 work?" "How long will they be on?" "What can we expect?" Let

21 me address myself to that very quickly by simply saying that,

22 yes, they are going to work. Why? Because there is no

23 acceptable alternative.

24 Have you thought about what the alternative is?

25 We had that before we had wage and price controls, and rapid

1 inflation is not an acceptable alternative. How long will it
2 last? I don't know. It is going to last until we break the
3 back of inflation and the inflation psychology of this country.
4 It is going to last until we stabilize the economic base of
5 this country.

6 Now, are we going to do violence to the basic pre-
7 cepts of a free enterprise system? Not on your life. It may
8 be that we will have controls the rest of this year. It may
9 be that we will have them into next year. But we have had
10 them before and it is not a ruinous situation.

11 To me it is a very encouraging thing, that you have
12 a government that is flexible enough, that is courageous
13 enough to take the steps that are necessary to right this
14 democracy when it gets out of balance, and that is all we are
15 trying to do.

16 Many have been quite critical of the fact that we
17 have a huge deficit in this fiscal year and one planned for
18 next fiscal year. And I have been all day testifying before
19 the Ways and Means Committee trying to justify it and I will
20 tell you this, I found out one thing -- it is a whole lot
21 easier to criticize it than it is to justify it.

22 [Laughter, applause.]

23 Now, what is the alternative of it? What is the
24 alternative? We are trying to rebuild, we are trying to
25 expand, we are trying to encourage the stimulation of economic

1 vitality, we are trying to build jobs in this country for
2 five million people who are unemployed. What is the alter-
3 native?

4 We just got through having a tax cut. It has
5 barely gone into effect. Should we indeed have turned around
6 and instead of facing the deficit, which we have, which is
7 enormous, should we have imposed taxes upon the American
8 people so that we have a balanced budget? Suppose we had?
9 Suppose then we did indeed have a recession not only here
10 but around the world? Suppose, instead of having five million
11 unemployed, we had fifteen or twenty million unemployed; how
12 would you justify that?

13 Now, it seems to me that we have to recognize cer-
14 tain things, and the first very fundamental thing that we
15 believe and that we try to adhere to is that government can-
16 not, will not, and should not try to supply all of the answers
17 for all of the problems of this American democracy. We can-
18 not do it. Most of what has to be done is going to have to
19 rest with you, it is going to have to rest with management,
20 and it is going to have to rest with labor, no matter how
21 well they get along.

22 The government has a role to play and it is trying
23 to play it. But you cannot look and you should not look to
24 Washington to try to find a resolution to all of your prob-
25 lems, because I am one of those who believes that all the

1 wisdom in this country does not reside on the banks of the
2 Potomac, and I don't think you need a federal bureaucrat or
3 a federal judge or any other single individual trying to tell
4 this Nation what is best for it or tell any community what
5 is best for it. I just don't think that is the American
6 system, nor can you expect to do it.

7 [Applause.]

8 We have a big deficit, sure we do. We do it and it
9 is not accidental, it is on purpose. Frankly, we didn't
10 intend it to be quite this big.

11 [Laughter.]

12 Things kind of got out of hand, you know. But the
13 truth of the matter is, it is as big as it is simply because
14 we didn't have the expansion we thought we were going to
15 have last year. Things were slower than we thought. The
16 recession was deeper than we knew. The impact was greater
17 than we anticipated.

18 Last year we suffered the first trade deficit since
19 1888. Now, that should tell us something. I am not talking
20 about a balance of payments deficit, I am talking about a
21 trade deficit, trade of goods and services. We have always
22 at least in that category, we have had a surplus. In our
23 balance of payments, which includes other things, we have
24 been running a consistent deficit for a generation. But
25 always we have had a trade surplus until last year, for the

1 first time since 1888.

2 Now, what does this tell us? It tells us that the

3 largess of this land of liberty is not limited. It tells us

4 that this land of the free, that has given so much of itself

5 that is through its care and its compassionate and its

6 understanding and its generosity, has since World War II

7 rebuilt entire nations and rehabilitated them, refurbished

8 them, rebuilt their plants, so that today there are nations

9 that have newer plant facilities, better equipment, equal

10 technology with our own. And for the first time, for the

11 first time in your life or my life, we are facing real

12 competition from abroad. No doubt about it. And it is not

13 going away, and the government can't make it go away, and

14 you needn't think we can.

15 I have been in the most intense negotiations for

16 the past several months -- and it hasn't been easy, and I

17 probably have been guilty of most of what some of the press

18 said I did. I was at times tough. I did use a little Texas

19 language, the only kind I know.

20 [Laughter.]

21 We call it English, but the English don't really

22 call it that.

23 [Laughter.]

24 Sure, I begged, I cajoled, I pleaded, I argued, I

25 reasoned, I tried to bully when I could, with nothing else

1 working. Why? Simply because we were asking people who had
2 for a generation lived off of our deficits. They had run
3 surpluses year after year after year because we were running
4 deficits year after year after year, and the time had come
5 when we had to turn it around. This meant that they gave up
6 something, and they understood better than we what they were
7 giving up. They knew that it was economic vitality, they
8 knew it was economic strength, they knew it was competitive-
9 ness, they could translate it into jobs, they could translate
10 it into trade surpluses and balance of payments surpluses.
11 And they were fighting for it, and I don't blame them. They
12 should have fought for it.
13 But it was tough negotiations because they were all
14 pitted against us. We were asking all of them to give some-
15 thing. And believe me, memories of generosity are short
16 and we are indeed foolish if we assume that our past acts of
17 compassion and understanding and gifts and largess us in any
18 particular good stead when it comes down to the bargaining
19 table of economic benefits, because they are tough and they
20 are going to be tough.
21 They are going to be competitive, and we have to be
22 competitive. And we can be if we understand that that is
23 what we have to do. But believe me, there is no monetary
24 magic that we can use to right the problems that we have.
25 Now let's look for a moment at where we are. And I

1 think perhaps if I had one thought that I want to leave you
2 tonight, it is in the affluent society in which we live that
3 we have lost all sense of discipline. We have lost it in
4 our schools, we've lost it in our homes, we've lost it in
5 our personal lives and in many cases we've lost it in our
6 business lives.

7 We have lost all respect for institutions. Now, I
8 use as a classic example what happened in the White House
9 the other night. I appreciate the fact the young girl, the
10 young lady -- she wasn't all that young, she was 30 years
11 old, so she knew what she was doing -- but she had a message
12 she wanted to deliver. She had no respect for the Presidency
13 or for the President or the surroundings in which she wanted
14 to give her little speech. She wanted to do "her thing."

15 Well, how much can we afford for every single
16 person in this Nation to do "their thing"? Now, everybody
17 sayd and everybody bows and says, "Well, he's doing his thing"
18 or "She's doing her thing." Can we afford that in a complex
19 society? I think not. But I think the time has come when
20 we have to recognize that we can't all run in every direc-
21 tion and do whatever we choose whenever we please under
22 whatever circumstances we elect. We can't do that.

23 This land is too complex, our tiees are too diffi-
24 cult, and the rights and privileges of other people are too
25 sacred for any one individual to assume that he or she can do

1 whatever they wish at whatever time they choose. And I for
2 one am not prepared to say that I am going to applaud every-
3 one who runs off in the name of irresponsibility and says
4 "I am going to do my thing."
5 [Applause.]
6 Perhaps my thing ought to be a return to discipline,
7 a return to understanding.
8 [Applause.]
9 Perhaps it ought to be to take a quiet moment to
10 sit and to reflect, instead of condemning every institution
11 that is a part of this great democracy to sit down and ask
12 ourselves how do we compare. How do we compare? With all
13 our faults and all our frailties, how bad is this system?
14 What would I trade it for?
15 What would they trade it for? At a very time when
16 nations like Yugoslavia and others in Eastern Europe are
17 looking to the west, are looking toward giving their people
18 greater freedom so they can use their own individual imagin-
19 ation and initiative, so that they can be rewarded for the
20 fruits of their own labors, why should we turn back? Why
21 should we be ashamed here or anywhere else to cry from the
22 housetops that we have indeed built a system that is the
23 best ever conceived by man on this earth?
24 [Applause.]
25 We are all here, we are all part of the establish-

1 ment. I am part of the establishment and I have no apologies
2 to make for it. You're all part of the establishment, you're
3 part of the Chamber of Commerce. That really puts you in a
4 black hat, in case you don't know it.

5 [Laughter.]

6 Now, you undoubtedly work for a profit making organ-
7 ization -- or you should be.

8 [Laughter.]

9 Now, what is wrong with that? What is wrong with
10 profits? What is wrong with a business concern? What is
11 evil about profits? Isn't it a part of the free enterprise
12 system? Isn't it a part of this capitalist system? Isn't
13 it a part of this system that has built more homes, supplied
14 better clothing, more abundant food, more blessings, greater
15 medical care than any other civilization since the beginning
16 of time?

17 Now, what is wrong with it? This is what we
18 ought to be asking ourselves. What's wrong with it? Why
19 should we apologize? Why don't you get out tomorrow and
20 admit, throw your chest out and say, yes, I am a part of
21 the establishment, I believe in this sytem and I helped create
22 it and I am going to try to make it stronger.

23 I went to the Azores to meet -- with President
24 Nixon, to meet the French President, to talk about monetary
25 affairs. And I saw an island there, magnificent in its

1 beauty, a veritable artist's dream of a landscape. I saw
2 the pastures rimmed with rock hedges, rock walls, put there
3 lovingly by hand without mortar, free-standing rock walls.
4 That island has been in existence for 400 years -- 76 inches
5 of rainfall, wildflowers growing along wild, wild roses and
6 others growing along every road, beautiful to behold.
7 I looked at these beautiful white stucco houses
8 with the red tile roofs and I thought how wonderful it was.
9 And I began to drive through the villages and I asked about
10 them. And of all the islands and of all the villages, only
11 two have modern conveniences, the rest have no indoor
12 plumbing, they have no bathroom facilities, they don't even
13 have septic tanks. They have no electricity, they have no
14 running water, they have a central fountain in the village,
15 and these people live on $160 a year annual income -- $160
16 a year. Yet their development, their founding predates the
17 United States of America.
18 Why should we be apologetic for what we have done?
19 Name anybody anywhere any place on the face of this earth
20 that has done as much. Why do we want to turn our backs on
21 it? Sure, we admit frailty, sure we admit weakness, yes, we
22 have a lot to do, and we ought to set about doing it, and
23 you have done it here.
24 You created the great golden triangle, you changed
25 the face of this city and you changed the spirit of this

1 town when you did it. And we do need to concern ourselves
2 with pure air and clean water and our surroundings. Yes, we
3 need to beautify them. But we can't all go back to nature.
4 It all has to be done in a balanced atmosphere. We can't
5 let any emotional bent completely overwhelm us to the point
6 where it destroys the very industry, the very sinews that
7 make these other things possible, and it is this message
8 that you are going to have to carry across this land, because
9 I am telling you what you represent is under attack. It is
10 under attack around the world, and it is under attack right
11 here at home.

12 And you can't just look to government to solve
13 your problems, because you need to tell people why you be-
14 lieve in the free enterprise system, and you need to tell
15 them what profits mean and where they go. Have you thought
16 about where they go?

17 Well, they go to all the 80 million people that,
18 either directly through the pension funds, trusts, mutual
19 funds, or whatever, own stock in them, the corporations of
20 this country. Profits fuel the purchase of new equipment,
21 new plant, new facilities in order to provide more jobs to
22 be more productive. And unless we have this capital, unless
23 we have this equipment, unless we have a greater dedication
24 on the part of every American, I assure you you won't have
25 to worry about this system very long because you are not

1 going to have it, because you can't compete and you won't
2 compete.
3 Now, I am not pessimistic, I'm optimistic. It has
4 been my great privilege to travel a little bit around this
5 world in the last few months, to Japan, to Saigon, to
6 Bangkok and Thailand, to Djakarta and Indonesia, to Bali,
7 to the Philippines, to Rome, to London, to the Azores, to
8 Bermuda, and I will tell you, if you haven't been to some of
9 these places, save your money from this affluent society
10 and go and come home and feel how good it is to be home and
11 sense how proud you are that you are part of a young nation,
12 really young in comparison to many others in the world, but
13 that you are part of the most vibrant society that has ever
14 been created. And don't apologize for anything. Take heart.
15 Take heart that we have done what no one else has ever done,
16 and we have done it in a way that is shared by more people.
17 And to those who want to preach division, those
18 who want to pit the rich against the poor, they are entitled
19 to nothing but the back of your hand because in every society
20 there cannot be absolute equality, or if you have it we are
21 all under a totalitarian system of government beyond any
22 question. That is the only type of government that can ever
23 subject people and to make them equal in terms of their
24 economic position.
25 That is not what we want, surely. Surely, we want

to share. Surely, we want a system where everyone will have an opportunity, an opportunity to progress, an opportunity to be educated, an opportunity to have a job. But heaven help us if we get to the point where we want to reduce each and every one of us to the lowest common denominator, because we have indeed then destroyed this democracy, this system of free enterprise as we know it.

I can only finally say to you that in every way that I know how we are going to try to make some changes in this government's approach to the problems at home and abroad, because frankly we live in a new day, we live in a new era. And what motivated us, what helped us, what satisfied us, what served our needs ten years ago, twenty years ago no longer will do. The world has changed and we must change with it.

But we are the most intelligent people in the world, we know more than others, we are more highly skilled than others, and we of all people should be able to respond and adapt to these changes, and we can. We can, provided we understand that no one gives you anything; provided we understand that much of what we have today we did not create, much of what we have today we inherited and we inherited from people of strength and people of courage and people of vision and people of indominable faith and spirit, faith in themselves, faith in Almighty God, belief that they could in

1 this land of the free create something with our own hands
2 and our own minds. That is what we inherited.
3 Now, is it for us to use it, to waste it? I think
4 not. What is our responsibility? What is our duty? Not to
5 cry or to complain about the shortcomings and the frailties,
6 but to set about to try to correct them. We have a solemn
7 duty and an obligation to leave this land a little richer, a
8 little better, a little more secure, a little more stable,
9 and a little sounder than we found it. And we have that
10 responsibility that we alone can exercise.
11 And we have one more responsibility and, whether we
12 like it or not, we have the responsibility of leadership of
13 the free world. We assumed that mantle because no one else
14 could assume it. It fell on our shoulders in the aftermath
15 of World War II. It has placed great burdens upon us. The
16 cost has been terrific, and it is going to continue to be.
17 It is a great cost in terms of the aid that we have given,
18 $150 billion, the cost of lives of men, the cost in materials,
19 to provide a nuclear shield over men and women of all the
20 lands of the world who seek freedom, who want it, who
21 strive to be what we are, and we have that role.
22 If we indeed cast aside, if we reject this mantle
23 of leadership in this hour and in this day, believe me, there
24 is no nation on earth that can assume it, there is no
25 nation on earth that can supply this leadership for the free

1 world except the United States of America. And we would be
2 craven cowards indeed in my judgment if we cast aside this
3 role of leadership when we have the opportunity to make a
4 continuing contribution so that mankind might somehow improve
5 his lot, so that he might have a greater opportunity to
6 build and to create something out of his own mind and the
7 genius of his own spirit.
8 Thank you very much.
9 [Applause.]
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ADDRESS OF THE HONORABLE JOHN B. CONNALLY

SECRETARY OF THE TREASURY

to

THE CHAMBER OF COMMERCE OF THE CITY OF

RICHMOND, VIRGINIA

January 26, 1972

PRESIDENT WHEAT   It is difficult for anyone to serve with this crowd and not be extremely humble. Certainly no one person deserves any of the credit for what this Chamber does, but there is a Staff that deserves one whale of a lot of it.

Charlie Burtner, wherever you are, thanks to you and all of you who have labored so hard to keep me straight.

There is also an Executive Committee which I have called on perhaps more frequently than they would like, and I am indebted to them.

To the Board of Directors, I am equally indebted, And to this membership for its expression of confidence I say to you, "Thank you from the bottom of my heart.

This is a great city. I think it is the greatest. It has been good to me, and I will never be able to put back into it what it has given to me. I am grateful to all of you for this.

When I returned to town today, I found that I was to have the privilege of introducing our guest speaker. The Governor was scheduled to present our speaker but he has the "Flu" and is in bed. Jinx, would you please convey our best wishes to him for a speedy recovery and tell him that we all miss him -- me, particularly.

(Laughter)

Bob Buford has a note from the Governor. I will

ask Bob if he would read that note at this point

MR BUFORD: This is a communication from Governor Holton. I will read it verbatim so that I don't get charged with the responsibility for what he said.

He says:

"Mr. President Wheat, Mr. Secretary, distinguished guests, ladies and gentlemen:

"When two of our children last week dropped out of school and took to their beds for several days, we were told, and routinely assured, they had fallen victim to a little bug that was going around.

"This week, I found an entirely different situation. It's a gigantic virus --

(Laughter)

-- from the Southeast Asia; Hongkong; or possibly even Texas.

(Laughter)

"And to this particular Virginian, it is considerably more than a minor nuisance.

"My chief concern ,of course. which you, Mr. Secretary, as a former Governor can well understand - is that my disability has left my favorite General Assembly free to roam for three days, without my gentle guidance.

(Laughter)

"A situation fraught with awesome potentiality:

"Second only to that is my concern at being unable to be with you here in Richmond this evening but, since my doctor has very firmly said "No", please let me, <u>in absentia</u>, first welcome you and Mrs. Connally to Virginia and, secondly, express my appreciation and that of this great audience of outstanding Virginia leaders, that you have come here to share your thinking with us, and

"Third, acknowledge publicly and with thanks the magnificent job which we feel you are currently doing for your Country and your fellow man.

"Thank you."

(Applause)

PRESIDENT WHEAT: Thank you, Bob.

As I indicated earlier, this privilege befell me at a rather late date, and I warned the Secretary that he would have the dubious distinction of being introduced by a blind man unprepared with those notes.

(Laughter) (Applause)

In characteristic warmth, he responded, "Hell, it doesn't matter if you forget my name. Just tell them you've got a guy here that's got something to say."

(Laughter)

I think, in reviewing the record of this great man, three qualities stand out:

First, his versatility. A lawyer by profession

and by practice, he has engaged in such enterprises as broadcasting, ranching, petroleum, and, in addition to that, has found time to participate in all of his native Texas worthy undertakings, whether it is his Alma Mater, the University of Texas, or whether it is the Houston Art effort whatever it may be -- John Connally has been there.

He is versatile and able.

The second quality that stands out is that of service This began when he graduated from the University of Texas. He went to the Congress as an Assistant to Lyndon Johnson and, when the war came, he enlisted in the Navy; served with distinction, rising to the rank of Lieutenant-Commander, with several combat decorations. He returned to the field of service as Administrative Assistant to Lyndon Johnson. He went back to Texas to run for Governor. He was elected three times. He served as Secretary of the Navy under President Kennedy and, as we all tragically recall, was critically wounded in the assault on President Kennedy.

He was called to service again in February of 1971, and this brings me to the third quality that I see in this great man: A tough fairness.

Certainly, the understatement of the year would be to say that the Secretary of the Treasury's job was an easy job in February of 1971 or 1970 or 1969 or 1968 or any time in the last ten years.

Certainly, the moves that have been made in the intervening months -of almost twelve months - now, indicate the fibre and quality of this man.

I am reminded of the statement first attributed to Paul Diesel and since appropriated by many, including me:

"When the going gets tough, the tough get going".

Ladies and gentlemen, it is indeed a real privilege to present the Honorable John B. Connally, Jr., the Secretary of the Treasury of the United States.

(Applause)

SECRETARY CONNALLY: Thank you very much.

Please be seated.

President Wheat, were it not for the fact that the distinguished Governor of the Commonwealth of Virginia is ill, I would express a certain degree of happiness that he is not here because I am sure that I could not have received from his lips such a warm introduction as you have just given me one so gracious, and so kind, and so generous. I appreciate it very, very much.

Mrs Holton Lieutenant Governor Howell; Bill Miller, Congressman Satterfield, other distinguished head-table guests, President-elect Buford, ladies and gentlemen:

I was delighted when I saw these awards given out here a moment ago. I was somewhat in a state of shock when I sat down and saw this phalanx of telephones.

(Laughter)

I thought surely that Nellie and I had made a mistake and had failed to bring Martha Mitchell with us

(Laughter)

Mrs Holton, I hope you tell your distinguished husband that we do, indeed, miss him this evening.

I hope, however, in his recovery -- which hopefully will be rapid -- that he does not encounter an experience that I had when I was Governor of my Home State and, unfortunately, spent a few days in the hospital. Nellie came in one day with a long scroll which she brought and read to me. It had a lot of WHEREAS's, and WHEREAS's, and

WHEREAS I was Governor, and so on;

WHEREAS I was ill,

WHEREAS the Members of the Senate wished me a speedy recovery, passed by the Senate by a vote of 16 to 15.

(Laughter).

I hope that you all will be more understanding and sympathetic with your disabled Governor at the moment.

You know, I had a rather erie feeling as I came in here tonight. I always knew that there was a great similarity, a great rapport between Virginians and Texans, because you are responsible for much of what we are. At least, we gave you the blame for the bad part of us. But I

could not help but be struck by the coincidence:

First, I almost did not recognize your distinguished Lieutenant-Governor without his helicopter.

(Laughter)

Then I had the privilege of sitting here by your out-going President, Mr Jim Wheat. Well, it so happens that one of my dearest friends in Texas is a man named Jim Wheat who, also, is a very remarkable man, whose son, Joe Wheat, has just completed a year of service as part of his Texas Bar Association.

I have an uncle named Buford.

My favorite weather man in Texas is named Henry Howell on WOAI. I have listened to him for years.

My neighbor in the brush country in South Texas is Andrew P. Miller.

Then, to top it all off, your President expressed his gratitude for your retired Executive of this Association, Mr. Brill. It so happens that Nellie's name is Brill, and I am sure that somewhere in the past you all are kin to each other, so you better get to renewing those acquaintances.

So I really feel at home -- not so much so that I am going to keep you too long, however, because I have been set a wonderful example here this evening by the brevity of the invocation, Reverend.

(Laughter)

And Mr. Buford, by your acceptance speech. But, lest you get the wrong idea, now, I am not going to be quite that brief.

(Laughter)

On the other hand, I am not going to be like the old rancher was that came in from out in the country one Saturday evening, late, to do some shopping, and a huge blizzard came up during the night. He was snowed in; he couldn't go home; so he spent the night in town.

The next morning, he decided that he had not been to a church for a long time, so he decided to go to church. He went and, sure enough, because of the inclement weather, he happened to be the only parishioner there. The only one!

This happened to be a very special service that the pastor had prepared for some time. He had a very eloquent message and sermon that he wanted to deliver. So the pastor debated with himself for a moment as to whether or not he was going to go down and visit with the old rancher, or really deliver his sermon. He decided he had prepared the sermon and he would deliver it.

When he was through, he walked down from the pulpit and he said to the rancher, "Well, Zeke, what did you think of that speech?"

He said, "Well, Pastor", he said, "I'll tell you --

He said, "The best way I can describe my feelings, I guess". He said, "You know, up in this country, we frequently have to go out in bad weather with snow on the ground. I load my truck up with hay and", he said, "I go out in the pasture and feed my cattle."

He said, "Pastor, you know, when I get out there and just one old cow shows up, I don't dump the whole load."

(Laughter)

Now, I am not sure that you are going to get the whole load, but you may get half a load tonight.

I probably should really get into my remarks by recounting an experience that two friends of mine had, that appeared on the same platform out -- I am informed -- in Las Vegas, the day before yesterday: Bob Strauss, who is the Treasurer of the Democratic National Committee, was there. Appearing on the same program was Congressman Bob Wilson from San Diego.

Bob was attempting to take a few jibes at the Republican Party. He said that the only good thing about the Republican Party was the fact that they had brought one Democrat into the Cabinet.

Well, he should have known better, because Bob Wilson followed him on the platform in speaking, and Bob said, "Yes, that is right. We did bring one Democrat into the Cabinet as Secretary of the Treasury." He said, "Look

at what happened. We got the biggest deficit in the history of the Nation."

(Laughter)

So maybe I ought to start off by talking about deficits.

We have a big one, and none of us like it. But I think the President was on the horns of a dilemma -- we all were. We have experienced a year of profound change in 1971. August 15, really, I think, was a day that will long be remembered because it might well mark a date to which you can point on which profound change in this Country, in its economic structure, crystallized, coalesced, and was articulated by the President of the United States.

I think, frankly, we have entered a new era The actions that the President took on that day were very far reaching, as you well know. I won't attempt to recount them. We were obviously, last year, in a period of the doldrums. We were in economic stagnation. We were obviously having difficulty in the International Monetary field. We were -- and had been for many years; many years; more than a decade -- unable to meet our foreign commitments; unable to live up to the convertability of the dollar, which had stood us in such great stead since World War II.

The International Monetary Fund, organized and created at Breton Woods through the foresight of the United

States, and supported by the United States for the next quarter of a century began to come apart at the seams, largely because the economic strength and the vitality of the United States eroded.

So action was called for and, to his everlasting credit, the President of the United States had the perception to understand these problems and, more than that, he had the courage to act on them.

So he took very strong, direct action in imposing a freeze on this domestic economy; recommending vast changes in the tax structure to the Congress of the United States; suspending the convertibility of the dollar; and imposing a 10% surcharge on all imports.

These were all remarkable actions, and it is to the credit of the people of the United States that they understood it. They understood the reasons for it, and they applauded these actions, because they thought it was, indeed, an attempt on the part of the President to reckon with the problems that he was faced with; and that this Nation was faced with.

We still have many of those problems. Many of them have been resolved, but we still have not -- even during 1971 -- we have not been able to make the progress in revitalizing this economy that we hoped to do.

There are still too many people unemployed in this Country and, notwithstanding that fiscal 1972 will show

this enormous deficit; notwithstanding that the deficit in 1973 is much larger than any of us would like; nevertheless, there was no choice except to reduce spending at the Federal level, or to impose taxes, or some of both.

We had just reduced taxes -- a massive tax reduction that the Congress passed only in December; just a few weeks ago. It did not make sense to stifle the development of the economy and the expansion of the economy at this particular time, at a time in which we are still trying to revive it in order that people might find jobs throughout the width and the breadth of this land.

If he had, indeed, done so; if he had recommended a new Tax Bill to the Congress, in my judgment, it would have fallen on deaf ears. I don t think there would have been a chance that the Congress would have passed a Tax Bill in an election year; not when they had just reduced taxes.

I think it would have resulted in a lack of credibility.

I think it would have been interpreted by the Press and by the Nation as a political ploy. Yet, I must say to you in all candor that the President -- and none of his Advisors that I know of -- are happy with deficit spending. I certainly am not. I don't believe in it.

Yet, I think there are times when circumstances exist in this Nation which not only make it desirable, but

make it necessary I think such a time is now! I don't think we ought to be unduly concerned about it. I think we ought to recognize it for what it is -- that it is not an accident; that it was done deliberately; that it was done for the purposes which the President has already outlined; and I don't think that any apology should be made for it.

Now, I think the time is going to come in 1972, perhaps in 1973 -- when I really believe this economy will be stimulated. I have every confidence that we are going to make progress this year, to the extent that the next year may well present an entirely different picture But, at this particular moment in time, I think it was not only necessary but, indeed, a duty and an obligation of the Government to provide this type of stimulation.

Let me make it clear, at the same time, that the American people should not now, or ever, assume that all of the problems that we have in this economy, in this society, can be, or should be, turned over to the Federal government, or to any government, for that matter, to any level of government, for them to provide all of the answers, because we cannot do it. We are not going to do it. We are incapable of doing it.

(Applause)

If there is a problem today, it is because too many problems have been funnelled into the Federal government,

very frankly.

(Applause)

I resisted, as best I could, as Governor of my State of Texas, and my views have not changed one whit since that time. I do not think all of the wisdom resides on the Potomac River in Washington, D.C. I don't think it has, and I don't think it will.

I think the greatest thing that this President is trying to do is to get some reorganization of the Executive Branch of the Government; to try to get revenue sharing so that we can share with the States, and the cities, and the local units of government, funds that are unavailable to them now, in order that they can live up to their responsibilities, and fashion their course, and their own destiny as they want to do it.

But the problem that we have, when you have the hand of the Federal government directing any program, is that it insists upon a commonality throughout the United States and the people of the United States are not all the same The people of Virginia are not all the same. Your problems, and your desires, and your background, and your hopes and aspirations here, are different from what they are in Louisiana, and Louisiana is different from Colorado.

If we have any freedom -- and we speak of ourselves as the Land of the Free -- if we have any freedom, it should be

to have some voice in our own type of government; in structuring our own government; and running our own government. We ought not to have someone -- whether he is a Washington Administrator, or a Federal Judge -- handing down dicta.

(Applause)

I think we have to recognize that we are living in changing times. Your distinguished President, Mr. Wheat, said a moment ago that he was grateful for the help; he was grateful for the change that had occurred in this city, and in this Chamber, and he was grateful for the vision, and the foresight, and the willingness of this particular organization, as well as the people that it represents, to change as Society changes, and as the views and wishes of the people change.

We are, indeed, in the midst of a great change, not only in the United States, but throughout the world. We have to recognize it, and we have to understand it.

Now, I have been accused in the last week of scolding the American Businessman and then, on the very next day, of upbraiding Labor.

I don't think I did either. I said a few things about each of them, but I did not intend to scold, nor upbraid. I frankly thought I was trying to say things that exist as I see them, which is what I want to do here tonight -- in part, at least. That is simply that we must recognize as a Nation, as a people, that we are confronted with different

problems from those we grew up with. We have to recognize that the past 25 years -- the past generation; and even the past decade -- have witnessed profound changes in the structure of the leadership of the world.

Now, in the aftermath of World War II, I think we can all admit that the United States was the only viable economy; it was the dominant voice in all of the World,

the Free World, and the non-Communist World.

We were the only Nation that had this great vitality and productivity capacity. Much of the rest of the World was in wrack and ruin, distraught, and in devastation.

We set out to rebuild it, to revitalize it, to rehabilitate its cities, towns, nations, and peoples. And we did an amazing job. It is to the credit of the compassion and the care of the American people that we did, indeed, do our job well, to the point where, today, the two principal Nations that were conquered a quarter of a century ago are today the two most aggressive, vibrant, economic entities in the World. That is Japan and Germany. And they are!

Japan has risen from the shambles and from the rubble to where it is, today, the second greatest economic power in the Free World, and is third in all of the World.

The time has passed when the United States can, alone, through its bigness, through its productivity, its

capacity, its economic strength, dictate -- even if we wanted to -- to the rest of the World.

We are living at a time when there are going to be five great powers that manifest their strength. Obviously, Russia is one. Mainland China will be two, with 800 million people. Japan is already one. Western Europe and the Common Market will certainly be another; and the United States is the fifth.

Now, what does this mean, Folks?

It means a number of things. There are, really, only a couple of thoughts that I want to leave you with tonight.

For all the growth, and all the strength, we have to recognize that the United States still is preeminent in the Free World. No other Nation has the capacity, or the ability, to lead the Free World, except the United States.

We can talk about withdrawing from Vietnam; we can talk about withdrawal of our troops from Europe; we can talk about building a wall of isolation around this Country; we can talking about shedding the responsibilities and the role of leadership all we like and, if we consciously make that decision to cast aside the role of leadership, then it ought to be a conscious decision. It ought not to be by accident It ought not to be done out of emotion, but it ought to be done after very careful consideration, because I assure you, in the time in which we now live, if we cast aside the mantle of

leadership of the Free World, there is no Nation -- there are no shoulders -- upon which it will fall. It will flutter to the ground, I assure you, and lie there to be trampled upon because no other Nation has the strength; has the support; has the confidence; has the ability to supply the leadership which is so essential if we are going to try to preserve some hope for Nations to maintain the basic freedoms which we treasure so much.

Now, this means we pay a price for it. It is a costly thing. It is an extremely expensive thing. It takes much of our resources; our men; our material wealth; and we have given unstintly of it over the past 25 years.

Much of what we have tried to say in the past few months to Nations around the world is: "The time of the limitless largesse of the United States has passed." We can no longer afford it. It is not a question of concern, or compassion, or wish. It is a question of inability to afford it any longer. We have spent ourselves; we have spent ourselves in more ways than one. So that now, frankly, we have to look to the interest of the United States. We have to recognize that if we are to exercise the role of leadership in the political and military sense; if we are to keep the men in Arms; if we are to maintain the nuclear shield over the Free Nations of the World, over all of the developing Nations of the World; if we are to be the hope of mankind,

who seek to be free, who seek to have some of the necessities, much less the luxuries that are so much a part of our life in this land; it is going to be an enormously expensive thing for us to continue because these men, these materials, cost billions of dollars.

Let me make a point here: For the first time, in the Budget of 1973, you will see a reversal. Just the year before last, 42 cents out of every dollar in that Budget went to Defense; 35 cents of every dollar went for Social purposes in the United States.

That position is now reversed In the Budget which the President has just submitted to the Congress of the United States, 42 cents goes for Social purposes; 35 cents goes for Defense purposes.

Let me try to say to you that this Political leadership; this Military leadership; this Diplomatic leadership, all inevitably must be founded upon economic vitality and economic stability in the United States.

This is why we have arguments.

This is why we had negotiations with the other Countries in Rome, and in the Smithsonian.

This is what we were saying to them:

We were saying to them, "If we have to assume these burdens, then we have to have a system of fair trade in this World. We have permitted you to build up, over the many

years, barriers -- administrative and otherwise--tariffs and quota systems, in order to protect your burgeoning industries much as we do, today, for the developing Nations. But the time is passed when we can suffer this kind of competition

To put it in perspective, I was somewhat amused in the week before the negotiations at the Smithsonian. on December 17 and 18, the British were very concerned about their position -- and they do have a large number of unemployed. They were talking about their economic difficulties

I said to them, "I just saw a report just this week," which was about the week of December 15, "in which it said that you would have a surplus in your balance-of-payments, this year, of $2.3 billion."

I said, "We are going to have a deficit in our trade balance -- in our trade balance -- for the first time" -- at that time, I thought, since 1893 It is worse than that! "For the first time since 1888," have we had a deficit in our trade balance!

I said, "Let's put it on a comparable basis." We tend to think of other Nations in the same terms we think of ourselves. But for Britain to have"-- I use it only as an example, because the same is true of many other Nations around the World, I just happen to remember these figures quite well -- to have a surplus of $2.3 billion, our Gross National Product is eleven times greater than theirs!

So if we were in a comparable situation, we would have a balance-of-payments surplus of approximately $25 billion. And if we did, every Country in the world would be hollering about it!

Japan in 1971 -- I saw the figures today -- had a balance-of-payment surplus of $7.9 billion. In 1972, notwithstanding the 16.9% revaluation of the Yen, they are going to have a surplus of $7 billion. And we are still running a deficit in our trade balances, and the trade balances do not include the cost -- all of the Military costs -- I have been talking to you about. So, obviously, there has to be a change, and this is what we have been fighting for. And this is what we are going to continue to fight for, because I don't think this Nation can afford to neglect itself at home. We cannot ask the people at home to make the sacrifices which they are going to be asked to make; we can't ask them to assume the burdens, the cost of leadership of the Free World and, at the same time, not demand that we have fair and equal treatment from our trading partners around the world -- whoever they might be. And that is precisely what we are going to say.

(Applause)

Finally, though, I think we, in the United States, must recognize, that -- frankly, as a result of a lot of soul searching -- we must recognize that we do, indeed, live in a

new day, and that we have forgotten the meaning of the word "discipline" in this Country, as we once understood it

We don't have discipline at home. We have spoiled children, as a result.

We don't have discipline in schools. They contribute further to some troubles.

We don't have discipline in business.

We don't have discipline even in the churches!

We don't have discipline in our communities.

We all want to run unbridled, aloof from the problems; detached from the discipline that is necessary to compete in a competitive world.

Frankly, we are going to have to go back to many things, not the least of which is the Puritan discipline of hard work!

(Applause)

If we don't do it, I can tell you now, we are in trouble. I am no pessimist I am an optimist. I think this Nation can do whatever it wants to and I think it will do it if it understands what the problem is. Part of the problem is that we don't know what the rest of the world is doing.

When I go into the factories of Japan, and Germany, and other nations around the world; when I see the hours they work and the pay they get, and the discipline they have,

and the dedication they exhibit, I know we are in trouble--unless we maintain the lead that we have -- and we are not doing it!

The only way we have kept ahead of the game is by being technologically ahead of the rest of the world. But even that is gone. That is gone, now.

We make very few things that other nations can't make For many, many years we had all of the technology. We had the sophistication of manufacturing capabilities. They are duplicated. We have gone overseas; we have given patents, licenses; one thing and another.

Not only that. We have abdicated in many areas where it was sheer foolishness to do so.

Congressman, forgive me if I allude to a particular problem. I don't even know how you voted on it.

(Laughter)

So I probably should not bring it up. But I bring it up simply because I feel so deeply about it.

83% of all of the commercial aircraft in the world flying today were made in the United States of America. This was one of the principal products that we sold, unparalleled and unduplicated in the rest of the world.

So what did we do?

In the one great area where we had a tremendous advantage in the technology and the manufacturing ability,

we turned our back. We said, "We don't want to fly in the modern world". We turned our back on the S.S.T.

"We will let Britain and France develop it, and Russia develop it", and they have developed it. It means that, 10 years from now, we are going to be flying in Russian planes, and British and French planes; unless we change our minds.

Now, this is the sort of thing that has an inevitable impact for a decade in the future. You cannot turn your back on progress that exists in this world.

You cannot turn your back on change in this world.

We cannot sacrifice the manufacturing capability; we cannot sacrifice the technological lead; we cannot sacrifice the ability to produce, to the exclusion of all of these things.

Sure, we have to have other things. We have to have Social gains. We have to have Medicare. We have to have Welfare. But you cannot export Welfare very well, and you cannot export Ecology very well.

(Applause)

So we have to make up our minds what kind of a world we want to live in. We have to decide what kind of a Nation we want. It has been great. You, here in Virginia, know how great it has been. The rest of the world, the rest of these United States owes you an eternal debt of gratitude

for the courage, for the valor, for the vision, for the foresight of men who were Virginians -- Virginians by birth Virginians in every sense of the word, who faced overwhelming odds; who were willing to make any sacrifice.

The great Virginia Conventions; the great orators who had the courage to lay down their lives, who were willing to take any risk, sacrifice their homes, their families, themselves, in order that they might make some contribution to the peace of the world in which they wanted to live.

When we lose the desire to build upon that strength, we have lost much of what this Nation represents.

So, it is for us to decide: What do you want?

How do you want to live?

What are you willing to do for it?

You cannot live in a world, with the luxuries, the standard of living that we enjoy in the United States, and compete with other Nations under the conditions in which they live, under the conditions under which they work, unless we get back to productivity of such growth, and such magnitude, that we can sustain the type of standard of living that we want to enjoy in the United States.

We can do it if we know that is our problem; and if we are willing to pay the price for it.

Thank you very much.

(Applause)

PRESIDENT WHEAT: Mr. Secretary, when I wrote you and asked you to be our speaker for this occasion, I told you that nowhere would you find a more responsive and friendly audience. I think that the response that this audience has just given you validates my preliminary statement.

We are deeply grateful to you, sir. You are always welcome.

Ladies and gentlemen, in the spirit of the Secretary's comments, let us all stand and sing the first verse of God Bless America.

(Whereupon, with the rendition of this anthem, the meeting was concluded.)

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

NEWS

FOR RELEASE AT 10:00 A.M., EST

STATEMENT BY THE HONORABLE CHARLS E. WALKER
UNDER SECRETARY OF THE TREASURY
BEFORE
THE AMERICAN MANAGEMENT ASSOCIATION, INC.
WALDORF-ASTORIA HOTEL, NEW YORK, NEW YORK
FRIDAY, FEBRUARY 4, 1972

THE IMPACT OF FEDERAL DEFICITS ON INTEREST RATES

Will the impact on credit markets resulting from Treasury financing of the big Federal deficits this year and next cause interest rates to rise?

Speaking both conceptually and in terms of historical experience, the answer is "No." And the reason is that the fundamental factors that determine interest rates are the real developments in the economy as a whole. Other things remaining equal, deficit financing may cause interest rates to rise--but those other things never remain equal. And in this instance, the economic facts of life, while pointing to some future upward pressure in short-term credit markets, where rates have declined sharply, support a case for stability and perhaps some further decline in long-term interest rates, including those on mortgages.

First, let's review the record.

C-227

Looking back at the history of our Federal budgets, you discover that there is no reason at all to conclude that budget deficits lead automatically to escalating interest rates -- nor for that matter, to inflation. Nor is there reason to conclude the opposite: that surpluses mean low interest rates and less inflation. Budget deficits and surpluses must be looked at in the context of real economic conditions.

For example, let's go way back to the mid-1930's. In those years the government was running deficits that were very large in relation to economic activity and Federal revenues.

(In FY 1934, for example, spending of $6.6 billion versus revenues of $3.0 billion resulted in a deficit of $3.6 billion. This deficit exceeded total revenues and amounted to 5.2 percent of gross national product. The $38.8 billion deficit expected this year amounts to about one-seventh of total revenues and 3.7 percent of GNP.)

As you will recall, inflation was certainly no problem in those days, and interest rates declined almost steadily, to minimum levels, during those depression years. The reason? A depressed economy with a very great amount of economic slack and potential for expansion of output.

During World War II and early post-war years, interest rates were pegged at very low levels. However, after 1950 both prices and interest rates rose until the Korean War ended in 1953. These changes were the result of the

stepped-up demands on our resources associated with war. The Federal budget was actually in substantial surplus in FY 1951, in balance in FY 1952, and in only moderate deficit in FY 1953.

Following the Korean War, the 1953-54 recession produced lower interest rates despite a large Federal budget deficit in FY 1954. As the economy expanded in 1955-57, a sharp rise in prices and interest rates occurred even though the government ran sizable surpluses during most of the period.

In all but one of the eight fiscal years, 1958 through 1965, Federal deficits were incurred. These years were generally characterized by the existence of unutilized resources and unsatisfactory levels of unemployment. Inflation was virtually dormant and interest rates, after 1959, were remarkably stable.

More recently, the 1965-69 period was a time of inflationary boom--again associated with war. Inflation and interest rate levels became intolerable. Here in this superheated climate very large deficits, especially in FY 1968, did indeed aggravate the inflation and the rise in interest rates that developed during this period.

This quick review of financial history strongly suggests that it is one thing to run a large deficit

in a year like FY 1968, in an overheated, full employment economy, but quite a different proposition in the present environment when we are moving in transition from war to peace and when fiscal stimulation is needed to speed the transition. Putting it in terms of the full employment budget concept, in 1967 and 1968, with the economy actually at full employment, the deficits were full employment deficits and were therefore highly inflationary.

As the economy expands in the months ahead, as inventories begin to accumulate, as corporate liquidity recedes from its very high level, and as bank loan demand expands, some pressures are bound to occur in short-term credit markets. And, as I noted, short-term market rates, such as on Treasury bills, have dropped sharply, now running a full 4-1/2 percentage points below the peaks of early 1970. But to the extent long-term rates still contain a significant margin of hedging against inflation--both on the part of borrowers and lenders--and I personally believe this to be the case--then continued progress in curbing inflation may well result in further declines in those rates.

The extent of these interest rate declines since early 1970 should not go unnoticed. As is shown by the attached table, which we in Treasury call the "swing sheet," the declines from those record highs have been large indeed.

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And it seems to me that the proof of the pudding as to what I have been saying is that during that same period, the Treasury has borrowed $36.5 billion from the public. And, during the same two years, the volume of funds available to private borrowers--especially homebuyers, has greatly expanded.

To sum up: Both theory and history tell us that large Federal deficits _can_ be financed relatively easily when economic slack prevails, as it does today. Consequently, those observers and market participants who have concluded that the new estimates of deficits mean higher interest rates across the board are likely to be proved incorrect.

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	1969 Yield Range				1970 Yield Range				1971 Yield Range				Recent Rates		Change	
	High		Low		High		Low		High		Low		8/13/71	2/3/72	Absolute	%
	Date	Yield	Date	Yield	Date	Yield	Date	Yield	Date	Yield	Date	Yield				
Treasury Bills:																
3-month..........	12/29	8.08	4/30	5.87	1/6	7.93	12/17	4.74	7/19	5.53	3/11	3.22	5.15	3.37	-1.78	-34.6
6-month..........	12/29	8.09	4/30	5.96	1/5	7.99	12/17	4.78	7/27	5.84	3/11	3.35	5.51	3.80	-1.71	-31.0
12-month..........	11/24	7.86	1/16	5.86	1/30	7.62	12/31	4.74	7/28	6.01	3/11	3.45	5.85	4.13	-1.72	-29.4
Treasury Coupons:																
1-year...........	12/29	8.40	1/20	6.16	1/2	8.28	12/18	4.86	8/10	6.28	3/11	3.48	6.09	4.43	-1.66	-27.3
3-year...........	12/29	8.51	1/20	6.02	1/7	8.42	12/4	5.60	7/28	6.91	3/22	4.27	6.60	5.34	-1.26	-19.1
7-year...........	12/29	7.77	1/16	6.09	5/26	8.12	12/4	6.10	8/10	7.11	3/23	5.15	6.86	6.04	-.82	-12.0
10-year..........	12/29	8.05	1/20	5.95	5/26	8.22	12/4	6.21	7/28	6.95	3/23	5.38	6.68	6.08	-.60	-9.0
Federal Funds 2/...	8/8	10.50	12/31	5.00	1/5	9.75	12/31	3.00	9/10	5.75	2/24	2.25	5-5/8	3-1/4p	-2.38	-42.2
Prime Rate.........	6/9	8.50	1/6	6.75	3/24	8.50	12/22	6.75	1/5	6.75	3/19	5.25	6.00	4.75	-1.25	-20.8
Federal Agency:																
1-year...........	12/30	8.76	1/20	6.33	1/2	8.75	12/24	5.53	7/28	6.56	3/16	3.93	6.52	4.54	-1.98	-30.4
3-year...........	12/31	8.55	1/28	6.53	1/2	8.54	12/21	6.16	8/12	7.33	3/24	4.70	7.32	5.77	-1.55	-21.2
New Aa Corp. Bonds: (Treas. Ser.) 1/.	12/5	9.29	1/24	7.27	6/19	9.90	12/31	8.02	5/21	8.42	2/11	7.32	8.22	7.45	-.77	-9.4
New Munic. Bonds: (Bond Buyer Ser.)	12/18	6.90	1/23	4.82	5/28	7.12	12/10	5.33	6/24	6.23	10/21	4.97	6.03	5.29	-.74	-12.3
New Home Conven. (FHA Ser.).......	Dec.	8.36	Jan.	7.53	July	8.61	Dec.	8.28	Jan.	7.96	Apr.	7.55	7.83 3/	7.72 4/	-.11	-1.4

Office of the Secretary of the Treasury
Office of Debt Analysis

1/ Series based on issues with no call protection, for 5 year call protected issues deduct (at present time) approximately 15 basis pts.
2/ Effective daily rate.
3/ FHA-field-office opinion survey as of 9/1.
4/ FHA-field-office opinion survey as of 1/1/72.
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The Department of the TREASURY
WASHINGTON, D.C. 20220 TELEPHONE W04-2041
NEWS

FOR IMMEDIATE RELEASE February 4, 1972

TREASURY ANNOUNCES ELEMENTAL SULPHUR FROM MEXICO IS BEING SOLD AT LESS THAN FAIR VALUE

The Treasury Department announced today that elemental sulphur from Mexico is being, or is likely to be, sold at less than fair value within the meaning of the Antidumping Act, 1921, as amended. Notice of the determination will be published in the Federal Register of Saturday, February 5, 1972.

The greatest single use of sulphur is in the manufacture of sulphuric acid, which is used in a wide range of manufacturing processes such as the production of fertilizers, chemicals and textiles.

The case will now be referred to the Tariff Commission for a determination as to whether an American industry is being, or is likely to be, injured. In the event of an affirmative determination, dumping duties will be assessed on all entries of elemental sulphur from Mexico.

A Notice of Withholding of Appraisement was issued on November 6, 1971, which stated that there was reasonable cause to believe or suspect that there were sales at less than fair value. Pursuant to this notice, interested parties were afforded the opportunity to present both oral and written views prior to the final determination in this case.

During the period November 1970 through December 1971, elemental sulphur valued at approximately $14,800,000 was imported from Mexico.

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The Department of the TREASURY

WASHINGTON, D.C. 20220 TELEPHONE W04-2041

NEWS

FOR IMMEDIATE RELEASE February 4, 1972

RESULTS OF CURRENT TREASURY OFFERING

The Treasury announced today that $2.6 billion of the securities held by the general public maturing February 15 have been exchanged, leaving $1.2 billion, or 31.7 %, unexchanged. In the advance refunding, $1.3 billion of the securities maturing February 15 and May 15, 1974, held by the general public were exchanged. A total of $2.3 billion of the new 4-1/4-year notes and $1.6 billion of the new 10-year bonds will be issued to the general public.

Following is a summary of the participation in the refunding, advance refunding, and cash sale of bonds (amounts in millions):

ELIGIBLE SECURITIES		SECURITIES TO BE ISSUED		
		5-3/4% notes 5/76	6-3/8% bonds 2/82	Total
General Public				
Refunding				
4-3/4% notes 2/72	$ 573	$ 368	$ 35	$ 403
7-1/2% notes 2/72	2,447	1,561	137	1,698
4% bonds 2/72	741	418	50	468
Subtotal	3,761	2,347	222	2,569
Advance Refunding				
7-3/4% notes 2/74	2,823	-	172	172
4-1/8% bonds 2/74	2,449	-	505	505
7-1/4% notes 5/74	3,540	-	169	169
4-1/4% bonds 5/74	2,879	-	494	494
Subtotal	11,691	-	1,340	1,340
Sale for Cash		-	66	66
Total	15,452	2,347	1,628	3,975
Federal Reserve Banks and Government Accounts				
Refunding				
4-3/4% notes 2/72	$ 227	$ 140	$ 21	$ 161
7-1/2% notes 2/72	243	234	4	238
4% bonds 2/72	239	47	151	198
Subtotal	709	421	176	597
Advance Refunding				
7-3/4% notes 2/74	316	-	7	7
4-1/8% bonds 2/74	676	-	146	146
7-1/4% notes 5/74	965	-	4	4
4-1/4% bonds 5/74	698	-	221	221
Subtotal	2,655	-	378	378
Total	3,364	421	554	975
Grand Total	18,816	2,768	2,182	4,950

MEMORANDUM FOR CORRESPONDENTS: February 4, 1972

The attached letter from Secretary Connally to Senator Proxmire is released for publication at 6:00 p.m. this date.

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Attachment

FEB 4 1972

Dear Senator Proxmire:

In your press release of January 11, you stated that "the Treasury was shifting U. S. deposits into the Nation's largest banks at the expense of smaller banks." The data you cited to support your statement is incorrect and your conclusion is equally in error.

You cited figures representing the average balances in Treasury tax and loan accounts through which virtually all of the Nation's banks (about 13,000) provide services to the Government in attaining the economical flow of most of the Government's revenue from the business sector to the Treasury. To support your contention that the Treasury is shifting funds into large banks at the expense of smaller banks, you listed average tax and loan account balances for the ten largest banks in 1970 and 1969, pointing up a 12 percent increase for the period. By comparison, you said, the balances in all the other banks declined by nearly 13 percent.

Your figures for the 10 largest banks were correct for the 12-month periods ending December 31, 1970, and December 31, 1969. But the figures you used for all the other banks were calculated from data for different periods -- the fiscal years ending June 30, 1970, and June 30, 1969.

The fact is that while the average balances for the 10 largest banks increased by 12 percent in calendar year 1970 over 1969, all the other banks during the same period experienced not a decline of 13 percent, but an increase of over 22 percent. The comparisons of 1971 figures with those of 1970 show a similar direction of change although smaller in amount. These comparisons are set forth in tables attached to this letter.

But is it to be concluded from this comparison that, contrary to the message of your press release, the Treasury was actually shifting deposits into the Nation's smaller banks at the expense of the 10 largest banks? Certainly not.

The simple fact is that the Treasury does not collect these vast sums from the public and then distribute the money at its discretion in the tax and loan accounts of banks. Our role is limited to qualifying banks as depositaries, and we have so qualified some 13,000 banks, large and small. The flow of funds through those qualified banks into the Treasury's checking accounts at the Federal Reserve Banks is determined by the locations and convenience of the taxpayers and purchasers of Treasury securities, by the competitive efforts of the banks in serving their customers, and by the aggressiveness of the banks in bidding for Treasury securities, not by choice of the Treasury.

The Treasury's principal concern is that the money should become available as quickly as possible, at the least operating expense, and with minimal disturbances in the money market from the large fluctuating transfers of funds. Those objectives are being achieved by the tax and loan account system, which was established more than 50 years ago and which has been improved and expanded over the years with the basic objective of promoting the smooth functioning of the economy. The enclosed brief description of the Treasury tax and loan account system makes it clear that the Treasury does not influence the flow of funds into tax and loan accounts with particular banks nor does it shift such funds between banks.

I am concerned that incorrect data and inaccurate impressions about how the system operates could create unjustified confusion in the public mind about the efficiency, equity, and impersonal operating characteristics of the tax and loan account arrangements. We of course welcome suggestions for improvements in the system that would serve the basic objectives of maximizing efficiency in cash operations and minimizing any unwanted economic and money-market impact arising from day to day Treasury operations.

Sincerely yours,

(Signed) John B. Connally

The Honorable
William Proxmire
United States Senate
Washington, D. C. 20510

Enclosure

ANALYSIS OF AVERAGE BALANCE IN TREASURY TAX AND LOAN ACCOUNTS DURING CALENDAR YEARS AND FISCAL YEARS 1969 AND 1970

CALENDAR YEAR ANALYSIS

($ millions)

	Average Balance Calendar Year 1969	Average Balance Calendar Year 1970	Difference	Percentage Change
11 Banks	4,088	4,914	+ 826	+ 20.2%
0 Largest	969	1,085	+ 116	+ 11.9
11 but 10 Largest	3,119	3,829	+ 710	+ 22.8%

FISCAL YEAR ANALYSIS

	Average Balance Fiscal Year 1969	Average Balance Fiscal Year 1970	Difference	Percentage Change
11 Banks	4,329	4,022	- 307	- 7.1%
0 Largest	1,022	916	- 106	- 10.3%
11 but 10 Largest	3,307	3,106	- 201	- 6.1%

ANALYSIS OF AVERAGE BALANCE IN TREASURY TAX AND LOAN ACCOUNTS
DURING CALENDAR YEARS AND FISCAL YEARS 1970 AND 1971

CALENDAR YEAR ANALYSIS
($ millions)

	Average Balance Calendar Year 1970	Average Balance Calendar Year 1971	Difference	Percentage Change
l Banks	4,914	4,970	+ 56	+ 1.1%
Largest	1,085	1,090	+ 5	+ 0.5%
l but 10 Largest	3,829	3,880	+ 51	+ 1.3%

FISCAL YEAR ANALYSIS

	Average Balance Fiscal Year 1970	Average Balance Fiscal Year 1971	Difference	Percentage Change
l Banks	4,022	5,146	+ 1,124	+ 27.9%
Largest	916	1,123	+ 207	+ 22.6%
l but 10 Largest	3,106	4,023	+ 917	+ 29.5%

THE TREASURY TAX AND LOAN ACCOUNT SYSTEM

Most of the Treasury's receipts flow into its checking accounts at the Federal leserve Banks from the business community through "Treasury tax and loan accounts" n the nation's commercial banks. The system was adopted more than 50 years ago and as undergone improvement over the years for the purpose of promoting the smooth unctioning of the economy by minimizing the impact of Treasury financial operations n reserve's of the entire banking system and on the money market.

During the past 30 years, the system has been expanded to provide significant dvantages for the Government in the most efficient inflow of practically all its evenues. This includes such things as corporation income taxes, excise taxes, and ndividual income and social security taxes withheld from the pay of employees, the atter being the biggest element of all. The vast sums flowing through the system, resently at an annual rate approaching $150 billion for these classes of taxes alone, re being collected and made available to the Treasury the fastest possible way and ith the least operating expense.

What happens, very simply, is that business concerns make the payments through heir own banks; thus the payments charged to the bank accounts of the business conerns are immediately credited to the banks' accounts with the Treasury. The Treasry then "calls" the money in from its accounts at the commercial banks to its opertting accounts at the Federal Reserve Banks. For administrative convenience, all anks maintaining tax and loan accounts are divided into three groups based on the ize of their accounts. Calls by the Treasury are made on the basis of the percentage f the aggregate balances in each group of banks, the same percentage being called rom every bank in the same group.

None of this would be possible without the special services of the commercial anks in handling the detailed transactions for the Treasury, instead of having busiess concerns send tax returns and their checks to the Internal Revenue Service offices here they would have to undergo much more expense processing and then end up with aving to put the checks through the whole banking system anyway.

The banks do not bill the Treasury for these and other specific services. They re compensated, instead, through the value of these funds temporarily in their custody or account of the Treasury in this "flow-through" system.

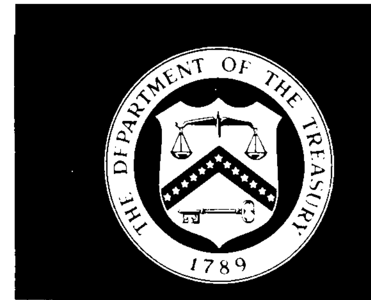
From time to time, the Treasury is confronted with statements made in the press nd elsewhere which, whether or not intended, mislead people into believing that the reasury collects this money and then deposits it in banks of its own choice, or that he Treasury somehow influences the flows into particular banks by selecting the banks o be used or by shifting funds between them. Nothing could be further from the truth.

All the 14,000 incorporated banks and trust companies are eligible to have a reasury tax and loan account; some 13,000 do. They all compete for handling the tax ayments described and for other eligible transactions (such as subscribing for Governent securities for their customers and themselves). The incentives for achieving its bjectives are built into the system. Whatever comes into a bank's account with the reasury, whether a large or small bank, is the result of the bank's own business peration. The Treasury is entirely neutral. Business concerns keep their own money n deposit with banks of their own choice. That same freedom of choice automatically etermines which banks receive the payments for credit to their account with the reasury.

The Department of the TREASURY

WASHINGTON, D.C. 20220 TELEPHONE WO4-204

NEWS



TENTION: FINANCIAL EDITOR

R RELEASE 6:30 P.M., February 7, 1972

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced that the tenders for two series of Treasury lls, one series to be an additional issue of the bills dated November 11, 1971 , and e other series to be dated February 10, 1972 , which were offered on February 1, 1972, re opened at the Federal Reserve Banks today. Tenders were invited for $2,300,000,000, thereabouts, of 91-day bills and for $1,600,000,000, or thereabouts, of 182-day lls. The details of the two series are as follows:

NGE OF ACCEPTED MPETITIVE BIDS:	91-day Treasury bills maturing May 11, 1972		182-day Treasury bills maturing August 10, 1972	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv. Annual Rate
High	99.216	3.102%	98.200	3.560%
Low	99.197	3.177%	98.174	3.612%
Average	99.206	3.141% 1/	98.183	3.594% 1/

86% 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

TAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	Applied For	Accepted
Boston	$ 18,040,000	$ 8,040,000	$ 27,195,000	$ 11,195,000
New York	2,980,420,000	1,908,120,000	2,569,560,000	1,415,710,000
Philadelphia	30,325,000	15,325,000	10,060,000	4,060,000
Cleveland	25,880,000	19,880,000	17,585,000	7,035,000
Richmond	8,850,000	8,295,000	2,935,000	2,835,000
Atlanta	46,910,000	35,770,000	21,695,000	8,605,000
Chicago	228,265,000	94,865,000	255,655,000	71,405,000
St. Louis	70,855,000	54,115,000	34,235,000	10,935,000
Minneapolis	40,655,000	32,875,000	34,265,000	16,065,000
Kansas City	33,640,000	29,340,000	21,125,000	13,640,000
Dallas	37,515,000	17,115,000	30,895,000	8,210,000
San Francisco	121,465,000	76,465,000	152,350,000	30,380,000
TOTALS	$3,642,820,000	$2,300,205,000 a/	$3,177,555,000	$1,600,075,000 b/

/ Includes $204,290,000 noncompetitive tenders accepted at the average price of 99.206
/ Includes $ 82,500,000 noncompetitive tenders accepted at the average price of 98.183
/ These rates are on a bank discount basis. The equivalent coupon issue yields are 3.22 % for the 91-day bills, and 3.72% for the 182-day bills.

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

FOR RELEASE UPON DELIVERY

REMARKS OF
HONORABLE JOHN B. CONNALLY
SECRETARY OF THE TREASURY
BEFORE
THE WHITE HOUSE CONFERENCE ON
THE INDUSTRIAL WORLD AHEAD
TUESDAY, FEBRUARY 8, 1972, 12:30 P.M.

I have been asked to discuss the role of government in the industrial world of 1990. For government, that will be an auspicious year.

The year 1989 will mark the 200th year of government under the Constitution. By this day in 1990, the 101st Congress will have opened the third century of the American Union.

That is an inheritance of liberty and law that few nations can claim. Beyond Britain, you will look far to find a system of government of such continuity and longevity.

It is foolish for me to speculate about the relation government will have to the economy in 1990. Prophesies too often go astray.

But I can tell you what attitude government ought to take toward the economy then. I believe American government must continue to provide a scaffolding of ordered freedom. Within that frame, each American should have the right to develop himself as far as he can.

The role of the Government is to provide an atmosphere in which the American people can flourish.

It is that purpose that led the President to set in motion the actions of August 15 of last year. Those were attempts to meet the problems of the American economy and to renew its ability to lead the world.

The role of government was to recognize the changing conditions of the world. Only a few short years ago, we had the unbeatable advantage of superior technology and hurtling innovation. We were the world's pre-eminent economic power.

But suddenly we have companions. There are at least three great economic powers today: the United States, Japan, and Western Europe. In the not distant future, we can expect Russia and China to join the list.

In these circumstances the role of the Government is to discern the conditions that have weakened us and to act to clear them away. The Nation expects that of us.

I do not need to catalog for this audience every action the President has taken to right the economy in the last half year. But we are making every effort to insure that American labor and industry are not at a disadvantage in competing in the world economy.

-- We have been able to obtain fair and reasonable exchange rates.

-- We are attempting to change the rules of trade to obtain fair treatment for American products throughout the world.

-- We will halt the inflationary spiral so that price increases will no longer occur at such a rapid pace that American products cannot compete at home or abroad.

-- We have provided incentives to create more jobs by encouraging American businesses to invest in more modern plants and equipment.

-- We have provided tax incentives to encourage American companies using American labor to export American products throughout the world.

-- We will provide funds to stimulate research and the development of new products and new technology.

-- We will continue to act to insure fair treatment for American products and American businesses.

Beyond those efforts, when we found our policy toward expropriating nations had failed to insure fair treatment of American companies, we produced a new policy.

We are studying our antitrust laws to decide whether they are so restrictive as to restrain American companies from competing effectively abroad. If they are, we will try to change them.

That is the place government policy occupies in our economic system and in the life of the Nation.

However important, it is a restricted place. The power of government is limited. And hopefully, will remain so.

In the first place, the Government's policies must be founded on a clear insight into our problems. We cannot, for example, solve this nation's economic problems by passing legislation to build a wall of protection around America. Nor can the Government alone make American products more competitive.

In the second place, it is American work and enterprise that have led this Nation so far. We will continue to succeed only if the American people want to carry on with the task.

-- Innovation must flow from the people themselves.

-- Organizations must be built by the people.

-- Productive work must be the people's ambition.

To set the conditions for a rich and dynamic national life, America must rely on the voluntary, disciplined effort of men and their associations that has characterized her since the settlements at Jamestown and Plymouth.

Only people have dreams and ideals and inspiration. Government is a vehicle through which they have expressed them. If people have no dreams, if people have no faith, if people have no inspiration, then government can only become a parasitic instrument of stagnation.

To be honest, I cannot say with utter certainty what form this Nation that these generations of American have brought to maturity will take by 1990. We are discussing the future at one of those rare moments in our history when a great many critics question the future character of the Nation.

We are passing through a time of feverish action and criticism. You all know the divisions among the people in the recent past. You have all heard the profound doubts that a few have attempted to cast on the future.

Many of our institutions are in upheaval. The school system is wracked by the problems of busing and the decisions. about the property tax. Reapportionment problems have state governments in an uproar. The relations of management and labor -- especially in the public sector -- lurch from crisis to crisis. On the West Coast, shipping is crippled by a dispute that is difficult to settle, but it is only the latest round.

We are alarmed over the environment. It almost seems as though someone reports another species of plant or animal nearing extinction every day. Can we build pipelines? Can we drive our cars?

The automobile industry is beset with problems of safety, pollution, and Japanese ingenuity. And where do you find a mechanic, anyway?

People have expressed to me grave uncertainty about our future.

-- There is concern about our ability to live peacefully in a changing world.

-- There is concern about our ability to remain productive without ravaging our natural resources.

-- There is concern about our ability to manufacture products that are safe.

-- There is concern about our ability to educate our children.

-- There is concern about our ability to compete effectively in a dynamic world economy.

-- There is concern about our ability to enable all our citizens to live without poverty and with human dignity.

-- There is concern about our ability to govern ourselves.

These are indeed grave matters. They deserve our highest attention. When a nation fails to concern itself with matters such as these, it will soon cease to exist.

There can be no question but that we have problems. But they are no greater in degree than those human society has always faced. There will always be problems. But we have addressed our problems in the past and we will meet them in the future.

In today's world, we have become so sophisticated, primarily because of the impact of television, that problems are communicated to the nation instantaneously. Observers and commentators can provide instant analysis. But we have never been able to resolve problems instantaneously, and we should not expect to be able to. Solutions to difficult problems must be worked out.

You must remember that the resolution of difficulties in a nation of more than 200 million can only take place through thousands and even millions of changes over time. Our policies must be allowed to work in the dimension of time as well as those of space.

It is far easier to dramatize problems than to solve them. The people of this nation have come to expect drama and in many cases to react only to drama. As our society has become more mobile and our methods of communication more rapid, even our drama has had to be exaggerated to have an impact. Thus we have had violence in the cities, and in the schools, and on the streets to dramatize certain conditions. During the past few years, we seem to have recognized the futility of this course of action and these disruptions have subsided. But all too often we have reached for symbols rather than for progress.

I can offer one example of an issue whose full implications deserve to be worked out in the public mind. That is the notion of Zero Net Growth.

Simply stated, the idea is to stop the growth of the Gross National Product. It has a growing number of devotees. They insist that ending growth would help save the environment and turn us away from materialism.

But when you follow out the implications of this prescription, you will find it a misguided remedy.

Never has growth been more important. You can never feed the poor or ease the lives of the wage-earning families, ameliorate the problems of race or solve the problems of pollution, without real growth.

We can choose to turn away from growth. Other societies have. They lack heating and plumbing. They lack child care and education. They are static; pleasant for a few, perhaps, but choked and miserable for most of their people.

Recently I traveled to a beautiful island to talk about monetary affairs. And I saw something there that was magnificent in its beauty. An artist's dream of a landscape.

Pastures rimmed with rock walls, put there lovingly by hand without mortar, free-standing rock walls. That island people has been in existence for 400 years -- with 76 inches of rainfall a year, wildflowers growing in abundance, wild roses growing along every road, beautiful to behold.

I looked at these beautiful white stucco houses with the red tile roofs and I thought how wonderful it was. And I began to drive through the villages and I asked about them. And of all the islands and of all the villages, only two of these lovely villages have our modern conveniences. The rest have no indoor plumbing. They have no bathroom facilities. They have no electricity. They have no running water. They have a central fountain in the village, and these people live on 160 dollars a year annual income -- $160 a year. Yet their development, their founding, pre-dates the United States of America.

Why should we be apologetic for what we have done? Name anybody, anywhere, anyplace on the face of this earth that has done as much. Why should we want to turn our backs on it? Sure we admit frailty. Sure we admit weakness. Yes we have a lot to do, and we ought to set about doing it. But we have done so much.

What ought to be done about the plethora of ideas and programs like zero net growth that swirl around us in these times?

First, we ought to welcome honest criticism. Faults should be remedied. Out of the struggle of opinions, we can decide for ourselves the best way.

The idea of full -- even overfull -- debate on public issues is part of the rich heritage of this system.

Second, we need to join these debates. Too many of those who represent the highest achievements of this Nation duck their heads and concern themselves with their own narrow problems.

We must reject such popular dogmas as those that call for a halt in American economic advancement.

We must not allow our expanded leisure time to lull us into becoming smug and complacent.

We must not become slothful in our work.

We must not allow a spirit of greed to dominate our national life.

We must not sit back and expect our Government to cure our nation's ills.

Each of us must rededicate himself to strive for national greatness through practical methods.

We must turn to this task with resolution and without hesitation.

Testify anywhere they will ask you about the strengths of this Nation and the market economy. Talk about the achievements of your unions and your companies, which are the envy of the world. Explain the power that the sober, well-trained, hard-working American lends to your enterprise.

And go beyond that. Steep yourself in the issues of the day. Challenge the dreary assertions of those who deny that we can build a future out of our past.

If the millions of people of this Nation will put some of their vigor into the daily duties of the citizen, I will have no uncertainty about the future.

This Nation was founded nearly 200 years ago in a period of turmoil with great energy and with great optimism. Nearly a century later we dissolved in civil war. But we were reknit and went on to greatness. During this century we have fought two World Wars and survived a Depression. We have produced great literature and great art. We have had soldiers, philosphers, and leaders who will compare well with those of any civilization. This is our heritage.

And today, of all the nations in the free world, we alone have had the capacity and the ability to provide military leadership. We alone have had the capacity and the ability to provide political leadership. We alone have had the capacity and the ability to provide economic leadership. This, too, is our heritage.

We can never stand still. We must adjust to changing circumstances, to new complexities, and to new challenges. To shrink from this obligation would be to fail not only as a system of government, nor even as a nation. It would be to lose the foundation for the liberty and security of this generation, and those that follow.

The government of 1990, as much as the government of today, can only mirror its people -- their dreams, their inspirations, their dedication, their soaring ideals, their spirit.

Without these dreams, without this spirit, we can expect nothing but a government of oppression, a government of mediocrity, a government of stagnation.

Have the sands of time drained us of our greatness? I do not believe it. I will never believe it. I am eager to step into the future.

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UNITED STATES SAVINGS BONDS ISSUED AND REDEEMED THROUGH January 31, 1972

(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
MATURED				
Series A-1935 thru D-1941	5,003	4,998	5	.10
Series F and G-1941 thru 1952	29,521	29,494	26	.09
Series J and K-1952 thru 1957	3,754	3,743	10	.27
UNMATURED				
Series E [3]:				
1941	1,909	1,714	195	10.21
1942	8,419	7,557	862	10.24
1943	13,534	12,184	1,350	9.97
1944	15,800	14,144	1,656	10.48
1945	12,434	10,979	1,455	11.70
1946	5,659	4,836	824	14.56
1947	5,386	4,465	921	17.10
1948	5,580	4,547	1,034	18.53
1949	5,530	4,429	1,101	19.91
1950	4,847	3,830	1,017	20.98
1951	4,192	3,311	881	21.02
1952	4,389	3,444	945	21.53
1953	5,019	3,863	1,156	23.03
1954	5,118	3,881	1,237	24.17
1955	5,334	4,000	1,334	25.01
1956	5,157	3,833	1,324	25.67
1957	4,862	3,561	1,300	26.74
1958	4,753	3,381	1,372	28.87
1959	4,458	3,129	1,329	29.81
1960	4,479	3,046	1,434	32.02
1961	4,557	2,966	1,591	34.91
1962	4,422	2,787	1,635	36.97
1963	4,956	2,920	2,036	41.08
1964	4,821	2,833	1,988	41.24
1965	4,703	2,760	1,943	41.31
1966	5,071	2,838	2,232	44.01
1967	5,022	2,781	2,241	44.62
1968	4,766	2,551	2,215	46.48
1969	4,475	2,246	2,229	49.81
1970	4,671	1,933	2,738	58.62
1971	4,851	1,122	3,729	76.87
Unclassified	377	384	- 7	—
Total Series E	179,553	132,256	47,297	26.34
Series H (1952 thru May, 1959) [3]	5,485	3,841	1,644	29.97
H (June, 1959 thru 1971)	8,178	2,635	5,543	67.78
Total Series H	13,663	6,476	7,187	52.60
Total Series E and H	193,216	138,733	54,484	28.20
All Series – Total matured	38,277	38,236	42	.11
All Series – Total unmatured	193,216	138,733	54,484	28.20
All Series – Grand Total	231,494	176,968	54,525	23.55

[1] Includes accrued discount.
[2] Current redemption value.
[3] At option of owner bonds may be held and will earn interest for additional periods after original maturity dates.

Form PD 3312 (Rev. Mar. 1971) – Dept. of the Treasury – Bureau of the Public Debt

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

NEWS

MEMORANDUM TO CORRESPONDENTS: February 8, 1972

Attached is a letter delivered today to the President of the Senate which transmits a proposed bill to impose a tax on emissions of sulphur into the atmosphere. A similar letter was delivered to the Speaker of the House. Also attached is a copy of the bill.

oOo

Attachments

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

FEB 8 1972

Dear Mr. President:

There is transmitted herewith a proposed bill, "To promote the abatement of atmospheric sulphur pollution by the imposition of a tax on the emission of sulphur into the atmosphere, and for other purposes."

In his Environmental Message of February 8, 1971, the President observed that sulphur oxides are among the most damaging air pollutants, costing society billions of dollars annually in terms of human health, vegetation, and property. At that time the President stated that a charge on emissions of sulphur into the atmosphere would be a major step in applying the principle that the costs of pollution should be included in the price of the product. The President also stated that legislation to this end would be submitted to the Congress upon the completion of studies underway in the agencies most directly concerned. The Treasury Department, the Council on Environmental Quality, and the Environmental Protection Agency have completed their studies on this concept and have developed the details of sulphur oxides emissions charge, incorporated in the enclosed draft.

The proposed bill would provide for a tax, beginning with calendar year 1976, on the emissions of sulphur into the atmosphere. The tax would be imposed directly on the sulphurous emissions of those sources large enough to measure and monitor their emissions. Small emitters, who do not have facilities to measure or monitor emissions, would pay tax on the sulphur content of their fuel purchases.

The tax rate would be 15 cents per pound of sulphur emitted into the atmosphere, with reductions in or exemptions from the rate applicable in certain sulphur tax regions as determined by the Administrator of the Environmental Protection Agency. The tax would be reduced to 10 cents in regions where it was demonstrated that there was no violation of the national primary ambient sulphur oxide air standard on an average basis during the preceding calendar year. There would be no tax in regions where it was demonstrated on the same basis that there was no violation of either national primary or secondary ambient sulphur oxide air standards.

Pursuant to the Clean Air Act Amendments of 1970, national ambient standards have been set for six major air pollutants, including sulphur oxides. States are required to develop implementation plans to achieve these standards within three years. Enforcement at all levels of government may be hampered by debate over technical feasibility and commercial

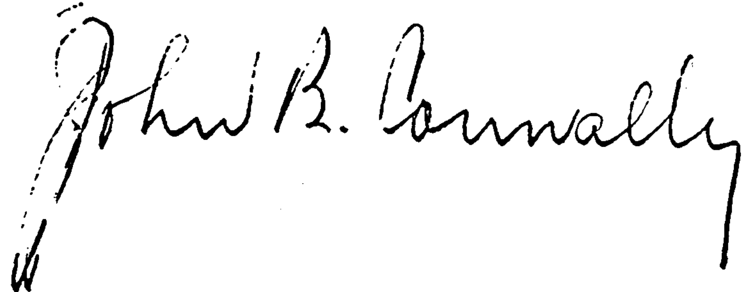
availability of control technology for sulphur oxides. This sulphur oxides tax will stimulate industry to develop and install control technology and use cleaner fuels as quickly as possible in order to minimize the tax liability. It will stimulate prompt compliance with ambient standards and reduce the need for ad hoc enforcement actions.

The sulphur oxides charge in no way compromises the air quality standards of the Clean Air Act. In all cases, the development of effective state regulatory programs and implementation plans will be required, and where the charge is insufficient to achieve the standards, regulatory authority will assure that the standards are met. Together, the sulphur oxides charge and existing regulatory authority provide a powerful mechanism to achieve air quality objectives.

A general explanation of the proposed bill and its background also are enclosed. A similar letter is being sent to the Speaker of the House of Representatives.

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

Sincerely yours,



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

Enclosures

A BILL

To promote the abatement of atmospheric sulphur pollution by the imposition of a tax on the emission of sulphur into the atmosphere, and for other purposes.

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

SECTION 1. SHORT TITLE, ETC.

(a) Short Title.--This Act may be cited as the "Pure Air Tax Act of 1972".

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

SEC. 2. TAX ON SULPHUR EMISSIONS AND THE SULPHUR CONTENT OF FUELS.

(a) Imposition of Tax.--Chapter 39 (relating to regulatory taxes) is amended by adding at the end thereof the following new subchapter:

"Subchapter F - Environmental Quality Taxes.

"Sec. 4891. Sale of sulphurous fuels.

"Sec. 4892. Sulphur emissions by processors and registered taxpayers.

"Sec. 4893. Additional tax imposed upon sales of sulphurous fuels and sulphur emissions.

"Sec. 4894. Definitions, registration, and special rules.

"SEC. 4891. SALE OF SULPHUROUS FUELS.

"(a) Imposition of Tax.--There is hereby imposed a tax at the rate specified in subsection (b) upon each pound of sulphur contained in a sulphurous fuel sold by a registered taxpayer during any calendar year beginning after 1975.

"(b) Rate of Tax.--

"(1) In general.--Except as provided in paragraph (2), the tax imposed by subsection (a) shall be 15 cents per pound of sulphur contained in a sulphurous fuel.

"(2) Special rule.--With respect to the sulphur content of any sulphurous fuel sold during a calendar year for ultimate use in a sulphur tax region which is determined by the Administrator of the Environmental Protection Agency to be a Class II sulphur tax region for the preceding calendar year, the rate of tax imposed by subsection (a) shall be 10 cents per pound of sulphur contained in a sulphurous fuel.

"(c) Exemptions.--No tax shall be imposed under subsection (a) in respect of:

"(1) Sale for use in certain sulphur tax regions.--Sulphur contained in a sulphurous fuel sold during a calendar year for ultimate use in a sulphur tax region which is determined by the Administrator of the Environmental

Protection Agency to be a Class III sulphur tax region for the preceding calendar year.

"(2) Sale to registered taxpayer.--Sulphur contained in a sulphurous fuel sold to a person who is a registered taxpayer.

"(3) Sale for nonfuel use.--Sulphur contained in a sulphurous fuel sold for a nonfuel use including, in accordance with regulations prescribed by the Secretary or his delegate, such products derived from fuels as are customarily used for nonfuel use.

"(4) Sulphurous fuels exported.--Sulphur contained in a sulphurous fuel sold for export or for resale by the purchaser for export. This paragraph shall not apply to the sale of a sulphurous fuel unless, within 6 months after the date of the sale by the registered taxpayer (or, if earlier, on the date of shipment by the registered taxpayer), the registered taxpayer receives satisfactory proof that the fuel has been exported.

"(5) Sale for use in motor vehicles.--Sulphur contained in a sulphurous fuel sold for use in a motor vehicle.

"(6) Sale for use as supplies for vessels or aircraft.-Sulphur contained in a sulphurous fuel sold for use by the purchaser as supplies for vessels or aircraft.

"(d) Floor Stocks Tax.--

"(1) In general.--There is hereby imposed a floor stocks tax on the sulphur content of sulphurous fuel held by a person who ceases to be a registered taxpayer. The tax shall be imposed at the rate which would apply under subsection (b) if the floor stocks were sold by such person for ultimate use in the sulphur tax region where they are located at the time he ceases to be a registered taxpayer.

"(2) Special rules.--Paragraph (1) shall not apply if the sulphur content of sulphurous fuel held by the person at the time he ceases to be a registered taxpayer is less than 2,000 pounds of sulphur.

"SEC. 4892. SULPHUR EMISSIONS BY PROCESSORS AND REGISTERED TAXPAYERS.

"(a) Imposition of Tax.--There is hereby imposed a tax at the rate specified in subsection (b) upon each pound of sulphur emitted into the atmosphere--

"(1) by a registered taxpayer, or

"(2) by a processor (other than as the result of the combustion or distillation of sulphurous fuel),

during any calendar year beginning after 1975.

"(b) Rate of Tax.--

"(1) In general.--Except as provided in paragraph (2), the rate of tax imposed by subsection (a) shall be 15 cents per pound of sulphur emitted into the atmosphere.

"(2) Special rule.--With respect to the sulphur emissions during a calendar year in a sulphur tax region which is determined by the Administrator of the Environmental Protection Agency to be a Class II sulphur tax region for the preceding calendar year, the rate of tax imposed by subsection (a) shall be 10 cents per pound of sulphur emitted into the atmosphere.

"(c) Exemption.--No tax shall be imposed under subsection (a) in respect of sulphur emissions during a calendar year in a sulphur tax region which is determined by the Administrator of the Environmental Protection Agency to be a Class III sulphur tax region for the preceding year.

"SEC. 4893. ADDITIONAL TAX IMPOSED UPON SALES OF SULPHUROUS FUELS AND SULPHUR EMISSIONS.

"(a) Imposition of Tax.--In addition to the tax imposed under sections 4891 and 4892, there is hereby imposed a tax at the rate specified in subsection (b) upon--

"(1) Registered taxpayers.--The number of pounds by which the sum of--

"(A) the pounds of sulphur contained in sulphurous fuel sold by a registered taxpayer for ultimate use in a sulphur tax region, and

"(B) the pounds of sulphur emitted into the atmosphere in such region by such person, or

"(2) Processors.--The number of pounds of sulphur emitted into the atmosphere in a sulphur tax region by a processor (other than as the result of the combustion or distillation of a sulphurous fuel), during any calendar year beginning after 1975, which exceeds the net base pounds of sulphur of such processor or registered taxpayer for such sulphur tax region for the preceding calendar year. The amount determined under paragraph (1) (A) shall not include pounds of sulphur contained in sulphurous fuel sold by a registered taxpayer to another registered taxpayer.

"(b) Rate of Tax.--The rate of tax imposed by subsection (a) shall be--

"(1) 5 cents per pound of sulphur contained in sulphurous fuel sold for ultimate use in, or emitted into the atmosphere in, a sulphur tax region which is a Class I sulphur tax region for the calendar year and was a Class II sulphur tax region for the preceding calendar year,

"(2) 10 cents per pound of sulphur contained in sulphurous fuel sold for ultimate use in, or emitted into the atmosphere in, a sulphur tax region which is a Class II sulphur tax region for the calendar year and was a Class III sulphur tax region for the preceding calendar year, or

"(3) 15 cents per pound of sulphur contained in sulphurous fuel sold for ultimate use in, or emitted into the atmosphere in, a sulphur tax region which is a Class I sulphur tax region for the calendar year and was a Class III sulphur tax region for the preceding calendar year.

"(c) Definitions.--For purposes of this section--

"(1) Base Pounds of Sulphur.--The term 'base pounds of sulphur' means the sum of the pounds of sulphur contained in sulphurous fuel sold for ultimate use in, and the pounds of sulphur emitted into the atmosphere in, a particular sulphur tax region during a calendar year by a processor or a registered taxpayer.

"(2) Net Base Pounds of Sulphur.--The term 'net base pounds of sulphur' means the base pounds of sulphur for the calendar year--

"(A) increased by transfers of such pounds to the processor or registered taxpayer from other processors and registered taxpayers in the same sulphur tax region, and

"(B) decreased by transfers of such pounds by the processor or registered taxpayer to other processors and registered taxpayers in the same sulphur tax region.

Transfers of base pounds of sulphur shall be made in accordance with regulations prescribed by the Secretary or his delegate.

"SEC. 4894. DEFINITIONS, REGISTRATION, AND SPECIAL RULES.

"(a) Definitions.--For purposes of this subchapter:

"(1) Sulphurous fuel.--The term 'sulphurous fuel' means any natural or manufactured substance, in a raw state or after processing, which is suitable for use as a combustible fuel directly or after processing, and which contains at least one-tenth of a pound of sulphur, in elemental or compound form, per million BTU's of heat content.

"(2) Dealer in sulphurous fuel.--The term 'dealer in sulphurous fuel' means any person who customarily purchases, produces or imports sulphurous fuel in amounts exceeding 100,000 million BTU's of heat content per year and customarily sells at least 25 percent of such fuel. For purposes of this paragraph, the production of a fuel includes extraction from a mine, well or other natural deposit or the manufacture of any fuel using natural or manufactured material.

"(3) Producer-User of sulphurous fuel.--The term 'producer-user of sulphurous fuel' means any person who customarily produces or imports sulphurous fuel in amounts exceeding 100,000 million BTU's of heat content per year, at least 75 percent of which is used by such person. For purposes of this paragraph, the production of a fuel includes extraction from a mine, well or other natural deposit or the manufacture of any fuel using natural or manufactured material.

"(4) Emission source.--The term 'emission source' means any point source (as defined by regulations prescribed by the Secretary or his delegate for purposes of this section in concurrence with the Administrator of the Environmental Protection Agency) of sulphur oxides emissions.

"(5) Purchaser of sulphurous fuel.--The term 'purchaser of sulphurous fuel' means any person who customarily purchases sulphurous fuel in amounts exceeding 100,000 million BTU's of heat content per year, at least 75 percent of which is used by such person.

"(6) Registered taxpayer.--The term 'registered taxpayer' means a person who has registered as provided under subsection (b).

"(7) Processor.--The term 'processor' means an emission source which would not be classified as such solely by reason of its sulphur oxides emissions derived from the combustion or distillation of sulphurous fuel.

"(8) Sulphur tax region.--The term 'sulphur tax region' means an air quality control region or a portion of an air quality control region which is subdivided in accordance with the provisions of subsection (d) (1).

"(9) Class I sulphur tax region.--The term 'Class I sulphur tax region' means any sulphur tax region which is not certified to be a Class II or III sulphur tax region by the Administrator of the Environmental Protection Agency.

"(10) Class II sulphur tax region.--The term 'Class II sulphur tax region' means any sulphur tax region which is certified by the Administrator of the Environmental Protection Agency to be a Class II sulphur tax region.

"(11) Class III sulphur tax region.--The term 'Class III sulphur tax region' means any sulphur tax region which is certified by the Administrator of the Environmental Protection Agency to be a Class III sulphur tax region.

"(12) Air quality control region.--The term 'air quality control region' means a region designated in accordance with the provisions of section 107 of the Clean Air Act, as amended and supplemented (42 U.S.C. 1857c-2).

"(13) Nonfuel use.--The term 'nonfuel use' means a use of a sulphurous fuel in which no product derived from such fuel is released into the atmosphere.

"(14) Supplies for vessels or aircraft.--The term 'supplies for vessels or aircraft' shall have the same meaning as set forth in section 4221 (d) (3).

"(b) Registration.--

"(1) Dealer in sulphurous fuel.--Any person who is a dealer in sulphurous fuel shall be required to register (in accordance with regulations prescribed by the Secretary or his delegate) for a calendar year if, during any one of the five calendar years preceding the taxable year, such person--

"(A) purchased, imported or produced sulphurous fuel containing more than 250,000 million BTU's of heat content, or

"(B) emitted more than 1,000 tons of sulphur into the atmosphere.

"(2) Producer-User of sulphurous fuel.--Any person who is a producer-user of sulphurous fuel shall be required to register (in accordance with regulations prescribed by the Secretary or his delegate).

"(3) Emission source.--Any person (other than a processor) who operates or maintains an emission source during any calendar year beginning after 1974, shall be required to register (in accordance with regulations prescribed by the Secretary or his delegate) on or before January 1 of the succeeding calendar year.

"(4) Optional registration.--Any person who is a dealer in sulphurous fuel or a purchaser of sulphurous fuel who establishes (in accordance with regulations prescribed by the Secretary or his delegate) that he is capable of measuring the sulphur content of sulphurous fuel sold or used by him, may register as a dealer in or purchaser of sulphurous fuel.

"(c) Attribution of Emissions.--For purposes of sections 4892 and 4893, emissions are taxable at the rate applicable to the sulphur tax region in which such emissions occur except that any emission which is certified by the Administrator of

the Environmental Protection Agency to contribute to a violation of the national ambient sulphur oxides air standards (as prescribed in accordance with the provisions of section 109 of the Clean Air Act, as amended and supplemented (42 U.S.C. 1857c-4)) in another sulphur tax region shall be treated as emitted in the other sulphur tax region if the tax resulting from such treatment is greater.

"(d) Designation and Classification of Sulphur Tax Regions.--For purposes of this subchapter--

"(1) Designation.--

"(A) General rule.--Except as provided in subparagraph (B), each air quality control region shall be a sulphur tax region.

"(B) After consideration of petitions from the Governor of each State having territory within a particular air quality control region, the Administrator of the Environmental Protection Agency may divide such region into two or more sulphur tax regions if he deems such division appropriate. Such petitions shall be submitted in accordance with regulations prescribed by the Administrator of the Environmental Protection Agency.

"(2) Classification of sulphur tax regions.--A sulphur tax region shall be designated by the Administrator of the Environmental Protection Agency for a calendar year as--

"(A) a Class I sulphur tax regio if such region is not designated a Class II or III sulphur tax region,

"(B) a Class II sulphur tax region if the Governor of the State wherein such region is located demonstrates (in accordance with regulations prescribed by the Administrator of the Environmental Protection Agency) that there was no violation of the national primary ambient sulphur oxides air standard within such region on an average basis during the calendar year, or

"(C) a Class III sulphur tax region if the Governor of the State wherein such region is located demonstrates (in accordance with regulations prescribed by the Administrator of the Environmental Protection Agency) that there was no violation of the national primary or secondary ambient sulphur oxides air standards within such region on an average basis during the calendar year.

"(e) Measurement of Emissions.--For purposes of sections 4892 and 4893, taxable emissions resulting from the combustion or processing of sulphurous fuels or the smelting of ores may be estimated in accordance with regulations prescribed by the Secretary or his delegate in consultation with the Administrator of the Environmental Protection Agency.

"(f) Controlled Group of Corporations.--For purposes of this subchapter, a controlled group of corporations shall be treated as a single person and the term 'controlled group of corporations' shall have the same meaning assigned to such term by section 1563 (a) except that 50% shall be in lieu of 80% wherever such percentage appears therein.

"(g) Cross Reference.--For penalties and other general and administrative provisions applicable to this subchapter, see subtitle F."

(b) Refunds of the Tax Imposed Upon the Sulphur Content of Sulphurous Fuels.--Subchapter B of Chapter 65 (relating to rules of special application) is amended by adding at the end thereof the following new section:

"SEC. 6428. SULPHUR CONTENT OF SULPHUROUS FUELS EXPORTED, SOLD TO A REGISTERED TAXPAYER OR USED FOR NONFUEL USES.

"(a) General Rule.--The tax paid under section 4891 on the sulphur content of a sulphurous fuel shall be deemed to be an overpayment by the person who paid such tax if such fuel is exported, sold to a registered taxpayer, or used by the ultimate purchaser for a nonfuel use. The amount deemed to be an overpayment shall be based upon the sulphur content of such fuel at the time the fuel is exported, sold to a registered taxpayer, or used for a nonfuel use. The tax paid on the sulphur content of a sulphurous fuel which has been exported may be refunded to the exporter thereof, if the person who paid the tax waives his claim to such amount.

"(b) Condition of Allowance.--No credit or refund of any overpayment to the person who paid the tax on the sulphur content of a sulphurous fuel shall be made unless such person establishes, under regulations prescribed by the Secretary or his delegate, that he--

"(1) has not included the tax in the price of the fuel with respect to which it was imposed and has not collected the amount of the tax from the person who purchased such fuel;

"(2) has repaid or agreed to repay the amount of the tax to the purchaser or exporter of the fuel; or

"(3) has obtained the written consent of such purchaser or exporter to the allowance of the credit or the making of the refund.

"(c) Definitions.--

"(1) Sulphurous fuel.--As used in this section, the term 'sulphurous fuel' shall have the same meaning as set forth in section 4894 (a) (1).

"(2) Nonfuel use.--As used in this section, the term 'nonfuel use' shall have the same meaning as set forth in section 4894 (a) (13).

"(3) Registered taxpayer.--As used in this section, the term 'registered taxpayer' shall have the same meaning as set forth in section 4894 (a) (6).

"(d) Credit Against Tax Imposed by Section 4891.--A credit may be allowed against the tax imposed under section 4891, which is due on any subsequent return, for an amount equal to the payment authorized under this section.

"(e) Exempt Sales.--No amount shall be payable under this section with respect to the sulphur content of a sulphurous fuel which the Secretary or his delegate determines was exempt from the tax imposed by section 4891.

"(f) Regulations.--The Secretary or his delegate may by regulations, not inconsistent with the provisions of this section, prescribe the conditions under which payments may be made under this section, the amount to which any person is entitled under this section with respect to any period, or the amount which may be treated by such person as an overpayment which may be credited against the tax imposed by section 4891."

(c) Clerical Amendments, etc.--

(1) The table of subchapters for chapter 39 of subtitle D is amended by adding at the end thereof the following new subchapter:

"Subchapter F. Environmental Quality Taxes".

(2) The table of sections for subchapter B of chapter 65 is amended by adding at the end thereof the following:

"Sec. 6428. Sulphur content of sulphurous fuels exported, sold to a registered taxpayer, or used for nonfuel uses."

SEC. 3. STATE TAXATION OF SULPHUR CONTENT OF SULPHUROUS FUELS.

Nothing in this title or in any other law of the United States shall prevent the several States from taxing the sulphur content of sulphurous fuels.

SEC. 4. EFFECTIVE DATE.

Except as otherwise expressly provided, the amendments made by this Act shall take effect on the day after the date of enactment of this Act.

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

FOR IMMEDIATE RELEASE February 8, 1972

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 $ 4,200,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing February 17, 1972, in the amount of $3,900,865,000, as follows:

91 -day bills (to maturity date) to be issued February 17, 1972, in the amount of $ 2,400,000,000, or thereabouts, representing an additional amount of bills dated November 18, 1971, and to mature May 18, 1972 (CUSIP No. 912793 NB8), originally issued in the amount of $ 1,601,925,000, the additional and original bills to be freely interchangeable.

182 - day bills, for $ 1,800,000,000, or thereabouts, to be dated February 17, 1972, and to mature August 17, 1972 (CUSIP No. 912793 NZ5).

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, February 14, 1972. 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 announcemen 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 fc accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on February 17, 1972, in cash or other immediately available funds or in a like face amount Treasury bills maturing February 17, 1972. 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 f 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 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 from any Federal Reserve Bank or Branch.

oOo

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

FOR IMMEDIATE RELEASE February 8, 1972

TREASURY ANNOUNCES INCREASE IN AMOUNT OF WEEKLY BILLS

The Treasury today announced plans to raise additional cash by increasing the amounts of its regular weekly bill auctions.

The three-month bills will be increased $100 million and the six-month bills will be increased $200 million, beginning with the auction of February 14 for bills to be issued February 17.

FOR IMMEDIATE RELEASE February 9, 1972

MEMORANDUM FOR THE PRESS:

Attached is a draft bill to provide for modification in the par value of the dollar. Identical letters of transmittal, signed by Secretary Connally, were sent to the President of the Senate and the Speaker of the House.

oOo

Attachments

THE SECRETARY OF THE TREASURY
WASHINGTON 20220

FEB 9 1972

Dear Mr. President:

There is transmitted herewith a draft bill "To provide for a modification in the par value of the dollar, and for other purposes."

The proposed bill stems directly from the initiatives taken by President Nixon on August 15 to strengthen the international economic position of the United States. The suspension of convertibility of dollars into reserve assets, and the temporary imposition of the 10 percent import surcharge launched a series of intensive multilateral and bilateral negotiations aimed at achieving fair and equitable exchange rates and trading practices.

A significant breakthrough was achieved with the Smithsonian Agreement on a multilateral realignment of currencies. After intensive negotiations the Group of Ten succeeded in reaching difficult decisions on the appropriate relationship in the values of their currencies. The result of this joint effort is an overall weighted average realignment of approximately 12 percent in the currencies of other industrial countries, excluding Canada.

It will take some time for the full impact of the adjustment to be felt. However, the beneficial effects of the realignment on our trade and balance of payments position should begin this year.

As part of the realignment, and to facilitate agreement, the United States agreed to remove the temporary import surcharge, apply the Job Development Credit to foreign produced goods, and to propose legislation to Congress to devalue the dollar by 8.57 percent to $38.00 per ounce of gold following the talks on trade.

An agreement has now been reached with Japan to remove or lower certain barriers to United States exports, particularly those affecting agricultural trade. Substantive agreements have also been reached with the European Community, subject to final approval by its Council. Regrettably, no agreements have been reached with Canada. The United States will seek appropriate means of reducing imbalances in trade agreements with that country.

Japan has joined with us in a commitment to initiate and actively support multilateral and comprehensive trade negotiations beginning in 1973 and to solve more immediate problems within the context of the GATT during 1972. The European Community is joining with the United States in a similar commitment, subject to final approval by its Council. The Administration will seek legislative authority for the comprehensive trade negotiations.

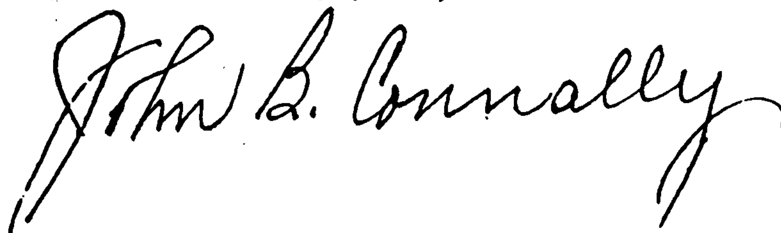
Accordingly, legislation is now being submitted which would have the effect of authorizing a modification in the par value of the dollar. The Bretton Woods Agreements Act prohibits a change in the par value of the dollar in the International Monetary Fund without prior Congressional approval and the proposed legislation would grant this approval.

The 8.57 percent change in the par value of the dollar will increase by an equal percentage the value of the United States gold stock and certain other assets. This par value change will also have the consequence of requiring the United States to add 8.57 percent to its dollar subscriptions to the international financial and lending institutions in order to maintain the value of these subscriptions in terms of gold. The maintenance of value provision works equitably on all members and assures that contributions from all countries maintain their original worth despite changes in relationships among currencies. It also assures that we do not lose out through devaluation in our share of the assets and voting power of these institutions. In addition, certain other gains and costs reflecting foreign exchange obligations will result from the change in par value. A report to be submitted separately contains full details on all aspects of the increases in assets and liabilities resulting from the change in par value as well as the amounts of appropriations to be requested to maintain the value of international financial institution subscriptions.

The proposed legislation will make a significant contribution to better balanced international economic relationships and to international monetary stability. I urge prompt and favorable consideration of this proposed legislation by the Congress.

It would be appreciated if you would lay the proposed bill before the Senate. An identical bill has been transmitted to the Speaker of the House of Representatives.

Sincerely yours,



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

Enclosures

DRAFT BILL

To provide for a modification in the par value of the dollar 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. This Act may be cited as the "Par Value Modification Act."

Sec. 2. The Secretary of the Treasury is hereby authorized and directed to take the steps necessary to establish a new par value of the dollar of one dollar equals one thirty-eighth (1/38) of a fine troy ounce of gold. When established such par value shall be the legal standard for defining the relationship of the dollar to gold for the purpose of issuing gold certificates pursuant to section 14(c) of the Gold Reserve Act of 1934 (31 U.S.C. 405b).

Sec. 3. The Secretary of the Treasury is authorized and directed to maintain the value in terms of gold of the holdings of United States dollars of the International Monetary Fund, the International Bank for Reconstruction and Development, the Inter-American Development Bank, the International Development Association and the Asian Development Bank to the extent provided in the Articles of Agreement of such institutions. There is hereby authorized to be appropriated, to remain available until expended, such amounts as may be necessary to provide for such maintenance of value.

Sec. 4. The increase in the value of the gold held by the United States (including the gold held as security for gold certificates) resulting from the change in the par value of the dollar authorized by section 2 of this Act shall be covered into the Treasury as a miscellaneous receipt.

Proposed Modification of Par Value of Dollar

Background Material

Department of the Treasury

February 1972

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Proposed Modification of Par Value of Dollar

I. Introduction

The Administration has proposed legislation authorizing and directing the Secretary of the Treasury to take the steps necessary to modify the par value of the dollar in the International Monetary Fund, by an amount corresponding to an increase of 8.57 percent, to $38.00 per fine troy ounce, in the official value of gold, as agreed provisionally in the Smithsonian Agreement of the Group of Ten on December 18, 1971. (This modification is equivalent to a reduction of approximately 7.89 percent in the value of the dollar stated in terms of grams of gold per dollar, from .888671 grams to .818513 grams.) The bill would also provide for maintenance of the value of United States subscriptions to international financial institutions. 1/

This report describes the Smithsonian Agreement, the status of negotiations on related issues, and the increases in U.S. assets and liabilities which will result from the change in the dollar's par value. It also discusses briefly international monetary developments in 1971 and points out several issues for discussion in the area of monetary reform over the longer term.

1/ Technical Annex 1 contains an explanation of the proposed legislation.

II. The Smithsonian Agreement and Related Negotiations on Trade and Defense

The Smithsonian Agreement of the Group of Ten followed a period of international monetary adjustment, involving a generalized system of floating (but not freely floating) exchange rates, during 1971. The Agreement consisted of a series of interrelated measures designed to help resolve balance of payments problems, to restore more settled conditions to the exchange markets, and to provide a framework from which longer-term reform could evolve. It was also agreed that discussions should be promptly undertaken on measures for reform of the monetary system over the longer term, and several areas of reform to which attention should be directed were identified. 1/

The agreement on "near-term" issues comprised:
- --a new pattern of basic exchange rate relationships among the countries concerned;
- --provisional arrangements to permit up to 2-1/4 percent margins of exchange rate fluctuation above and below the new exchange rates;
- --recognition that trade arrangements are a relevant factor in assuring lasting equilibrium in the international economy;
- --agreement by the United States to propose to the Congress a suitable means for devaluing the dollar in terms of gold as soon as a related set of short-term trade expansion measures were available for Congressional scrutiny; and
- --agreement by the United States to suppress immediately the 10 percent import surcharge and related provisions of the Job Development Credit.

A. Exchange Rate Realignment

During the week following the Agreement, the Group of Ten participants individually announced the exchange rates and exchange rate policies to which they had agreed. The Government of Canada announced that it would not immediately set a new fixed rate for the Canadian dollar, but instead would maintain temporarily a floating exchange rate and would permit fundamental market forces to establish the exchange rate without intervention except as required to maintain orderly conditions. Wider margins were adopted by the other foreign members of the group. The changes, and the new pattern of exchange rates for the U.S. dollar, are summarized in the table below. Annex 3 provides calculations of the average appreciation of certain foreign currencies vis a vis the dollar.

1/ The text of the Communique issued at the conclusion of the Smithsonian Agreement appears at Annex 2.

TABLE 1

Country	Type of Rate	Percent Change from IMF Parity of April 30, 1971 3/	Percent Apre-ciation Against U.S. Dollar 5,6/	Currency Units Per Dollar Old	Currency Units Per Dollar New
Belgium	Central 1/	+2.76	+11.57	50BF	44.8BF
Canada	Float	*	*	*	*
France	Par	0.00	+ 8.57	5.55FF	5.12FF
Germany	Central	+4.61	+13.57	3.66DM	3.22DM
Italy	Central	-1.00	+ 7.48	625L	581.5L
Japan	Central	+7.66	+16.88	360¥	308¥
Netherlands	Central	+2.76	+11.57	3.62G	3.24G
Sweden	Central	-1.00	+ 7.49	5.17K	4.81K
Switzerland	Par 2/	+4.89	+13.88	4.37SF	3.84SF
United Kingdom	Par	0.00	+ 8.57	.42£	.38£
United States	Par	-7.89 4/	0.00	*	*

* Not applicable.

1/ "Central rates" have been established in some cases, in lieu of new par values, as the effective rates around which currency values will be maintained within certain margins pending formal par value changes.

2/ Switzerland is not a member of the IMF.

3/ Expressed as percent change in grams of gold per currency unit.

4/ If approved by the Congress.

5/ Expressed as percent change in U.S. cents per foreign currency unit.

6/ All changes are computed on the basis of par values of April 30, 1971.

The Group of Ten participants recognized that their agreement would trigger decisions on exchange rates by most other countries and indicated their view that it was particularly important that no country seek improper competitive advantage through its exchange rate policies. Changes in parities could be justified only on the basis of an objective appraisal which established a position of disequilibrium.

As of January 20, the International Monetary Fund had received indications from all but five of its members of their decisions on their exchange rate systems. 1/ All proposed exchange rate changes have been examined by the IMF in accordance with the principle outlined above and in accordance with the Fund's own Articles of Agreement, and the Fund has taken such formal action as was appropriate in each case to enable the rates concerned to be implemented.

B. Negotiations on Trade Expansion Measures

The Smithsonian Agreement noted that urgent negotiations were under way between the United States and the Commission of the European Communities, Japan and Canada "to resolve pending short-term issues at the earliest possible date" ... and "to establish an appropriate agenda for considering more basic issues in a framework of mutual cooperation in the course of 1972 and beyond." These negotiations addressed themselves both to a framework for negotiation of major trade issues, including issues which the United States considers of critical importance, and to a series of short-term questions.

One outcome of the negotiations was agreement between the United States and Japan to initiate and actively support in the GATT during 1973 (subject to such internal authorization as may be required) multilateral and comprehensive negotiations with a view to the exchange and greater liberalization of world trade. A similar agreement has been reached with the European Communities subject to approval by its Council.

1/ Exchange rate changes and the new dollar rate for each IMF member country are listed in Annex 4.

The talks also resulted in a series of practical steps to remove trade obstacles that have become an irritant in trade relations. These issues have by no means been fully resolved, but a beginning has been made. The Japanese Government has decided to undertake a series of trade liberalization steps of immediate value to the United States. Both countries have agreed to join in efforts during 1972 within GATT toward the removal of some trade barriers leading to comprehensive trade negotiations in 1973. An agreement in substance with the European Communities subject to approval by its Council covers similar issues.

In short, a broad understanding has been reached for future negotiations in a time frame that takes into account the fact that international trade is undergoing an adjustment process initiated by recent comprehensive and substantial currency realignments. In the case of Canada, the parallel short-term negotiations, dealing mainly with certain bilateral agreements and understandings that no longer fit the facts of our economic relationship, have not been brought to a successful conclusion.

The immediate reduction of some tariff and non-tariff barriers by our trading partners, apart from their immediate value, is evidence of their intent to minimize economic friction and expand trade in reciprocal negotiations. These unilateral steps do not completely fulfill U.S. desires, but together with the commitment to negotiate reductions in trade barriers over the longer term they do constitute recognition that improvements must be made in the trading system.

Short-Term Measures

The greatest progress toward liberalization in the immediate future with tangible benefits for the United States will be made by Japan. For several years there has been a large and growing deficit in our trade with Japan, partially aggravated by the maintenance of trade barriers initiated during an earlier relative weakness in the Japanese

external position. While many important restrictions remain, the actions, supplementing the yen appreciation of 16.9 percent relative to the dollar, represent a useful contribution towards bringing the United States-Japan trade imbalance into reasonable adjustment. They are also a welcome sign that Japan wishes to participate more fully in international efforts to reduce barriers.

With respect to agricultural products, Japan will increase the quantity of imports permitted under quota of fresh oranges, orange and grapefruit juice, high quality beef; eliminate the duty on soybeans and tallow; and reduce the duties on turkey meat, soybean meal, vegetable oils and some 10 other products. A duty free tariff quota will be established for feeder cattle. The effective date for these changes will be April 1, 1972, the beginning of the Japanese fiscal year.

On industrial products, Japan will reduce tariffs on April 1, 1972, on automobiles, computers, computer peripheral equipment, machine tools, color film, X-ray film and some 30 other industrial products. Japan will also reduce the internal excise tax on large and medium sized automobiles. Effective February 1st, Japan removed import quota restrictions on light aircraft and light aircraft parts, computer peripheral equipment (not including memory or terminal devices), radar and radio navigational equipment for aircraft; light and heavy oil. A U.S. technical team will visit Japan this spring to discuss liberalization of restrictions on imports of computers and computer equipment In addition, Japan will grant more liberal treatment to the establishment in Japan by U.S. firms of wholly-owned subsidiaries for importation, wholesaling and servicing. Some actions are also being taken to reduce other Japanese non-tariff barriers.

The European Communities have also agreed in principle on some short-term measures that are pending approval of the Council of the European Communities.

The U.S. has agreed to participate in bilateral antidumping discussions with the Japanese at the technical level. The United States has agreed to consider proposing the elimination of the "Final List" (Section 402 (a) of the Tariff Act) method of customs valuation, contingent upon reciprocal actions by other countries. The United States may moderate its inspection measures of Japanese canned

tuna as determined by the effectiveness of Japanese measures in meeting U.S. laws and regulations concerning decomposed canned tuna.

The U.S. has been concerned that certain trading arrangements with Canada no longer fairly reflect the economic circumstances surrounding economic relationships between our two countries. While it has not yet been possible to achieve appropriate balance in these arrangements, the United States will seek appropriate means of reducing imbalances in trade agreements with that country.

Conclusion

These negotiations have by no means settled the major issues outstanding in the field of international trade. Nevertheless, a beginning has been made. Certainly, there is greater recognition today of both the need for further progress and the dangers implicit in failure to achieve that progress. We look forward to major trading nations joining with us in seeking future steps to revitalize the world trading system.

C. Defense Financing Arrangements

The President's announcement of August 15, 1971, included the statement:

> "Now that other nations are economically strong, the time has come for them to bear their fair share of the burden of defending freedom around the world."

The implication was that the persistent U.S. payments problems were caused partly by the high level of U.S. defense expenditures abroad. If some of those defense burdens could be borne by other countries, the shift required in other U.S. accounts, including trade, would be smaller.

Some reduction of defense expenditures overseas could be expected as we withdrew from Vietnam. However, these savings could be dissipated by rising prices and the increased cost of foreign currencies. Important imbalances have remained within Europe. Thus we felt justified in proposing that Europe carry a larger share of the common defense burden, which would mean some increase in their defense responsibilities, greater contributions to the cost of maintaining U.S. forces in their areas, or a combination of both.

The U.S. wants to maintain fully the strength of the alliance. Unilateral reductions in U.S. forces might be followed by reductions in the forces of our allies rather than a compensating increase. Reductions should be the subject of negotiations with Warsaw Pact powers, not the result of unilateral action. The U.S. view was that forces of our European allies needed to be strengthened. Thus, a number of conflicting objectives had to be reconciled.

The result so far has been the signing of a new agreement for partially offsetting the cost of U.S. forces in Germany and announcement by our European allies that they intend to increase expenditures on their own defense forces by more than $1 billion in 1972. These agreements are steps toward maintaining the strength of our common defense with a smaller proportionate burden on the United States. However, the increased expenditure by our European allies on their own defense forces, except as it may involve procurement from the U.S., will not directly reduce our payments deficit. Nor will the share of European gross national products spent on defense be larger than in previous years.

Consequently, this area will need further examination and action in the year ahead. The alternative would be to achieve the adjustment needed in our international payments balance almost entirely in the trade sector of the balance of payments. Our trading partners may find preferable new arrangements enabling the U.S. to maintain its forces in Europe without imposing strain on the international payments balance, that is, with consequences for the payments balance no different from those of maintaining the same forces in the United States.

III. Modification of Par Value of Dollar

This section reviews the considerations that led the United States negotiators to agree to propose legislation to the Congress to change the par value of the dollar. It also sets forth information on the changes in the dollar value of certain assets and obligations that result, under existing international agreements, when the par value of the dollar is changed in terms of gold.

A. Need for Change in the United States Official Gold Price as Part of Exchange Rate Realignment

The United States entered the negotiations that followed the August 15 announcement of the New Economic Policy with a strong view that it would be preferable to achieve a realignment of exchange rates without changing the official price of gold in terms of dollars.

This view was based upon several considerations:

(1) A change in the official monetary price of gold did not have any economic significance in itself. The exchange rate of the dollar in terms of other currencies was the substantive economic question, and the official dollar price of gold was relevant only if it affected those exchange rate relationships. A change in the price of gold would, however, lead to an arbitrary distribution of gains and losses in the value of reserve assets consequent on a currency realignment.

(2) There was a distinct probability that, if the U.S. acted unilaterally to propose an increase in the official dollar gold price, other countries would follow. Then, no realignment of exchange rates, or an inadequate realignment, would have occurred. Such a concerted change in par values would accomplish nothing useful. The higher official price would only stimulate speculation in anticipation of still further changes in the official price for gold sometime in the future. Therefore, it was essential to obtain prior agreement on a pattern of exchange rates for major currencies.

(3) Furthermore, the United States believes that the monetary role of gold should continue to diminish. With the advent of Special Drawing Rights in the Fund, the world now has a basic reserve asset which is not held in private hands and hence is free from the private hoarding and speculation which have arisen in connection with gold. There is no need to raise the official gold price merely to increase world reserves.

On the other hand, a political issue was involved in the gold price question. In some quarters in Europe it was strongly held that the United States must "participate" in the realignment by changing its official gold price. With the U.S. assuming the "burden" of devaluation, other countries expressed a willingness to accept a degree of exchange rate adjustment that, in the particular circumstances, might otherwise have been unacceptable to them.

Another, more technical, aspect of realignment may have been significant for some countries. A country which appreciates its currency has to reduce the value of its reserves and other foreign assets measured in terms of its own currency.

In September, at the Annual Meeting of the Fund in Washington, the United States proposed elimination of the temporary import surcharge if tangible progress could be made on trade liberalization and if foreign governments would allow fundamental market forces freely to determine the exchange rates of their currencies for a transitional period. This suggestion was not accepted -- underlining the strength of foreign views that the U.S. should "participate" and indicating the resistance of many governments to floating rates even for a transitional period.

In view of the circumstances, the U.S. agreed in December to a change in the official gold price, if necessary and useful to facilitate and expedite an agreed realignment of exchange rates. In the course of these negotiations, it quickly became evident that, whether or not the U.S. changed the dollar price of gold, the concern of all countries with the economically more significant variable of relative exchange rates placed a practical limitation on the freedom of action of the U.S. in setting the exchange rate of the dollar. In effect, other countries

did not want the dollar to be devalued too much, because this would affect their export and other internationally competitive industries. This consideration placed a limit on the extent to which they would agree to a change in our gold price without themselves matching and hence neutralizing such a change.

In terms of dollars, the proposed increase in the United States official gold price amounts to 8.57 percent. In terms of some other major currencies, the official price of gold will be lower than before, because of an appreciation of these currencies in terms of gold. On a weighted average calculation, the price of gold in terms of the currencies of the Group of Ten (excluding Canada) will rise only by about 1-1/2 percent.[1/]

It is the view of the U.S. Administration that this modest agreed change in the official gold price should not be allowed to disturb the trend toward de-emphasis of gold in the international monetary system. It will be one major task of those examining the long-term improvement of the international monetary system to develop agreed means to this end. As gold is becoming more widely used as a non-monetary commodity, it becomes less satisfactory as a monetary reserve.

B. Increases in Value of Assets and Liabilities

The currency realignment will increase the value of certain United States international reserve and other assets. Our gold assets, and those with a fixed relationship to gold, such as the gold tranche in the International Monetary Fund and Special Drawing Rights, will increase in value in terms of dollars by 8.57 percent -- corresponding to the change in the par value of the dollar. Foreign exchange assets will increase to take account of dollar devaluation plus any revaluations of the currencies held.

The par value change will also require an increase of 8.57 percent in the value of our dollar subscriptions to international financial institutions. This increase in the value of dollar subscriptions stems from a provision in agreements governing our participation in international financial institutions that subscriptions be maintained in value in terms of gold. The purpose of this requirement is to assure that the contributions of all members are maintained in value in relation to each other despite

1/ Weighted by official gold holdings on November 30, 1971.

changes in exchange rates. It also assures that our share in the assets and voting rights in these institutions is not impaired by devaluation of our currency.

Currency realignment will also mean increased dollar costs on repayment of certain foreign currency borrowings.

The increases in value of assets in some cases exceed the increases in related liabilities, and in others, assets and liabilities almost offset each other. As indicated, the increases in value of assets and liabilities are in most instances the direct result of the privileges and obligations of membership in international financial institutions.

Reserve Assets

With respect to liquid assets, there is an increase of $828 million in the value of United States gold holdings: an increase of $155 million in United States holdings of Special Drawing Rights; an increase of $144 million in the United States gold tranche in the International Monetary Fund; and, finally, an increase of $27 million in the value of United States foreign exchange holdings. These increments in value total $1.1 billion.

The calculated increment on the U.S. gold stock of $828 million is based on the assumption that the IMF will, prior to the change of the dollar parity, repurchase or withdraw from the Treasury amounts of gold on which it has a claim on the U.S. These claims amount to $544 million. We have requested that the IMF do so. There are no financial benefits to either party, whether these reversals take place prior to or following the U.S. parity change. The Treasury believes, however, that a clearer presentation of the effects of the parity change on the U.S. gold stock may be made if these transactions are now reversed, and, in any event, there no longer appears to be any useful purpose served by their continuation.

The increment in value of gold will result in a direct cash inflow into the Treasury of $828 million as gold certificates equivalent to the increase in gold value are issued to Federal Reserve banks. However, under unified budgetary accounting concepts, this increment in value will not be considered a budgetary receipt.

The increments in value of assets must be viewed against increases in value of three classes of liabilities, those resulting from: (1) participation in the International

Monetary Fund; (2) participation in the international development lending institutions; and (3) increased costs of repaying certain foreign currency borrowings.

International Monetary Fund

1. Additional letters of credit will be issued in the following amounts representing the 8.57% increase in: ($ millions)

(a)	amount of U.S. dollar subscription (3/4 of quota)	431	
(b)	outstanding drawings by U.S.	94	525

2. The value of our subscription will increase by: 575
(The net increase of $50 million over the additional letters of credit issued represents the portion of our quota paid in gold and undrawn.)

Our financial relationships with the International Monetary Fund will result in a $50 million net increase in our assets. First, because the dollar portion of $5,025 million of our Fund subscription is denominated in dollars of a fixed weight and fineness of gold, this subscription will increase in current dollar value by 8.57 percent or $431 million. Against the increased value of this asset, the United States will incur an equal liability derived from the requirement of maintenance of value of the dollar portion of our subscription in terms of gold. This will result in an exchange of assets, which will involve Treasury issuance of a letter of credit to the Fund in the amount of $431 million.

There will also be an 8.57 percent increase, equal to $144 million, in the United States gold tranche of $1,675 million in the International Monetary Fund. Because this asset represents gold paid to the Fund in partial fulfillment of U.S. subscription obligations, there is no offsetting maintenance of value obligation. However, the increase in value of this asset will be partially offset by the requirement that we maintain the value in terms of gold of a United States drawing from the Fund of $1,105 million, resulting in an increased obligation of $94 million. A letter of credit would be issue to the Fund in this amount as part of the normal process of issuing such letters of credit in connection with U.S. drawings.

Thus, in the Fund, as a result of the change in the par value of the dollar, the total increase in assets equals $575 million and the increase in liabilities amounts to $525 million. The $525 million in letters of credit that are to be issued to the Fund will not result in budgetary expenditures even when drawn upon, since transactions with the Fund represent exchanges of assets that are outside the budget. However, in order to issue these letters of credit an appropriation of approximately $525 million will be requested. The amount of appropriation to be requested can only be approximate since the exact amount of the Fund's holdings of dollars will vary by small amounts from day to day and the exact amount of the letters of credit to be issued to the Fund can only be determined as of the day when the United States par value is formally modified.

International Development Lending Institutions

The maintenance of value obligations incurred for the multilateral development lending institutions are as follows and total approximately $1,069 million:

	$ millions	
	Callable	To be paid in
IBRD	509	51
IDA	-	122
IDB	146	224
ADB	9	9
	$663	$406

1. Callable Capital

In the World Bank, the Inter-American Development Bank (IDB) and the Asian Development Bank (ADB), our subscription of callable or "guarantee" capital is denominated in dollars of a fixed weight and fineness, and the change in the par value of the dollar will mean an increase of 8.57 percent in our callable capital obligation. The U.S. callable capital in the World Bank is $5,715 million, in the IDB it is $1,370 million, and in the ADB it is $100 million. The total increase in the current dollar amount of these callable capital subscriptions, plus those authorized by Congress but not yet subscribed, amounts to $663 million.

This callable capital is a highly contingent liability. It has never been called in the past and it is highly unlikely that these subscriptions will be called in the future, considering the size of already existing callable capital and the reserves which the international banks have built up. Therefore, no budgetary impact is anticipated. Nevertheless, funds must be available to meet these obligations if they are ever called, and an appropriation of $663 million will be requested.

2. Paid-in Subscriptions

There is a substantial maintenance of value obligation with respect to the paid-in subscriptions to the development lending institutions -- the multilateral banks mentioned above, plus the International Development Association. This will amount to an estimated $406 million on paid-in subscriptions, both those previously authorized and those now in the authorization process. Only these obligations are expected to result eventually in budgetary outlays. The total obligation can only be definitively determined on the basis of dollar holdings as of the day on which the par value is changed and is therefore subject to some adjustment. In particular, the IDB is studying the appropriate application of maintenance of value to the pending subscription of $1 billion to the Fund for Special Operations.

The maintenance of value obligation on the paid-in subscriptions would be paid in the form of letters of credit, and an appropriation of $406 million will be sought as the basis for issuing these letters of credit. However, the letters of credit would be drawn down only after a period of several years as the development lending institutions need the funds for disbursements. No disbursements of these funds, and therefore no budgetary impact, is anticipated in fiscal years 1972 or 1973. It is expected that draw-downs of somewhat less than $350 million would be fairly evenly spread over fiscal years 1974-1976. Subsequently, the remaining draw-downs are expected in the fiscal years 1977 to 1986 as certain dollar loans of the World Bank and the IDB mature.

The total maintenance of value appropriation that will be sought for the international development lending institutions, for both callable capital and paid-in subscriptions, amounts to $1,069 million. As noted above, the callable capital obligation of $663 million is not

expected to result in budgetary expenditures, and the paid-in subscription of $406 million is expected to result in budgetary expenditures only over a period of about 10 years, with no draw-downs in fiscal years 1972 and 1973.

Against these appropriation requests, there will be increases in the current dollar value of our subscriptions to these institutions. Moreover, the cash impact of the draw-downs on letters of credit will be more than offset by the $828 million increase in the value of our gold stock. While this increment in value of gold is not a budgetary receipt, it will reduce Treasury borrowing needs and thereby lower interest costs, which are a budgetary expense. This annual reduction in interest costs, taken over the approximately 10-year period of drawdowns on letters of credit, will substantially offset the budgetary expense of maintaining the value of paid-in subscriptions.

Foreign Currency Securities and SDRs

		($ millions)
Exchange guarantees on foreign currency-denominated securities estimated at:	172	
Offset from gains on foreign exchange of:	27	145
Also, the value of both SDR held by and allocated to the Exchange Stabilization Fund (ESF) will be written up. Since the U.S. is a net user of SDR, there will be a net book loss, realizable only on dissolution of, or withdrawal by the U.S. from participation in, the SDR system, of:		42

The United States will incur a liability estimated at $172 million on its foreign currency denominated securities. In other words, the cost of buying foreign currencies to repay these securities will increase by $172 million over what it would have been prior to the realignment. The Exchange Stabilization Fund, as the organ of the Treasury which has responsibility for exchange stabilization operations, assumes the foreign exchange risk of United States Treasury borrowing in foreign currencies. Thus, the ESF would assume the liability of purchasing the additional foreign currencies to pay these obligations. This obligation will be partially offset by the increas of $27 million in the value of the foreign exchange holdings of the Fund. In addition, the Fund would incur an increased contingent liability of $197 million on allocations to date of Special Drawing Rights to the United States, but only in the remote event of liquidation of the

SDR account in the IMF. This liability is offset by an increase, noted above, of $155 million in the value of current United States holding of SDRs. No appropriations are necessary with respect to these transactions and no budgetary expenditures will result.

IV. Background on the Monetary Crisis of 1971

A. International Payments Developments

The U.S. balance of payments--and the world payments system--moved rapidly toward crisis in the first half of 1971. The lengthy slowdown in U.S. domestic economic expansion had not produced the expected strengthening of the U.S. trade balance. The deficit on official settlements rose to a level of $5.5 billion in the first quarter. In the wake of a record deficit of roughly $10 billion in the full year 1970, the early 1971 results generated increasing speculative pressures, directed particularly at those countries experiencing large inflows of funds.

Throughout the first half of 1971, speculative and interest-induced movements of funds caused dollar outflows and related reserve increases on a scale much larger than the unprecedented increases in 1970. (See Annex 6, Table 1.) Such movements, particularly into Germany, reached massive proportions in late April and early May, and the German authorities closed their exchange markets temporarily on May 5. Closing of most other major exchange markets followed quickly. The markets were reopened on May 9 and 10, with the German and Dutch Governments having decided to allow their currencies to "float" in the markets. The Swiss and Austrian authorities decided to revalue their currencies, by 7.07 and 5.05 percent respectively, and the authorities of other European countries decided upon a variety of measures, including the establishment of split exchange markets and controls on capital transactions, in an effort to moderate further short-term inflows. These actions provided only a brief respite from the developing crisis.

In the second quarter of 1971, the U.S. merchandise trade position worsened sharply, resulting in a quarterly deficit of more than $1 billion. With interest rates in Europe remaining relatively high, outflows of U.S. long-term capital continued to rise and inflows of foreign funds dropped sharply. The balance on current and long-term capital accounts--the "basic balance"--recorded a deficit of more than $3 billion in the second quarter, as contrasted with $1.1 billion in the entire second half of 1970. The balance on official settlements was in deficit by $11-1/4 billion during the first half of 1971. Table 2 traces the deterioration of the U.S. payments balance between 1970 and the first half of 1971.

TABLE 2

U. S. Balance of Payments, 1970-71
(millions of dollars, seasonally adjusted)

	1970	1971	
	Qtrly Average	1st. Q.	2nd Q.
Merchandise Trade Balance	528	269	-1040
Balance on Current Account (excl. gov't grants)	546	828	-329
U. S. Gov't Grants & Capital	-833	-1026	-1060
U. S. Private Long-Term Capital	-1446	-1724	-1964
Foreign Long-Term Capital	973	639	116
Balance on Current Account & Long-Term Capital	-760	-1283	-3237
Balance on Official Reserve Transactions	-2455	-5533	-5731

Adding to speculative sentiment caused by the very large interest-induced flows of liquid funds throughout the period was a growing recognition that the U.S. was experiencing a secular deterioration in its current account, and that there appeared to exist a fundamental disequilibrium in the full sense in which this term is used in the Articles of Agreement of the International Monetary Fund.

The United States had experienced deficits in nearly every year since 1950. Through the greater part of the 1950's, these deficits had been warmly welcomed by other nations which were anxious to strengthen their payments positions and rebuild reserves, which had been depleted if not wiped out in World War II. Many of these countries established exchange rates in 1948-49 in relation to the dollar which were consciously designed to enable them to achieve surpluses and thus to rebuild reserves, even at a time when their productive capacity had not been fully reconstructed. As their productive strength returned, the retention of exchange rates set in this earlier period enhanced their ability to achieve balance-of-payments surpluses.

Moreover, when other countries experienced inflation and fell into deficit, they could devalue their exchange rates against the dollar. Although there were not a large number of such devaluations by the larger industrial countries, the dollar nonetheless actually experienced moderate appreciation over the years after the major exchange rate adjustments of 1949.

The pursuit of policies by other countries which tolerated and frequently encouraged surpluses left the U.S. to experience the deficits which represented the mirror image of these surpluses. This led to an erosion of the net U.S. reserve position, which worsened throughout the sixties and reached drastic proportions in 1970-71 under the combined pressure of deterioration in trade, interest rate differentials, and finally, speculative forces. (See Annex 6, Table 2.)

Tables 3 - 7, Annex 6, trace the movement of the principal items in the U.S. balance of payments from 1960 through 1971. A long period of slack in the U.S. economy, unusually stable domestic prices, unusually high pressure of demand on capacity in other industrial countries, and a series of selective measures intended to benefit the payments position in the short-run stabilized the basic balance in the period from 1960 to 1964. During this period the current account (excluding government grants) strengthened greatly, to a peak surplus of $7.7 billion in 1964. Nevertheless, the official settlements balance remained in deficit by $1.5 billion.

From the high point in 1964, both the current account position and the basic balance weakened markedly, although shifts in relative cyclical conditions as between the U.S. and its major trading partners and the application of controls over capital outflows produced irregularities in the figures.

For much of the period from 1965 through 1969, the U.S. economy was experiencing heavy inflationary pressure under the strain of excessive demand. Prices in the U.S. rose more rapidly than those abroad. Much of the earlier improvement in our relative price position was lost, and other countries' surpluses increased rapidly.

Despite the protracted deterioration in the U.S. reserve position and in our underlying balance-of-payments accounts, there was widespread confidence until early 1971 that the U.S. deficit could be eliminated with the winding down of the war in Vietnam and the restoration of domestic price stability. The U.S. official settlements position was in balance in 1966 and actually in surplus in 1968 and 1969. Although these surpluses were the result of the application of tight monetary policy by the United States at a time of relative monetary ease abroad, they had the effect of partially alleviating foreign concern about the U.S. external position. Such policies were not, however, sustainable for an extended time. When relative monetary conditions were reversed in 1970 and relative slack in the U.S. economy failed to stimulate large gains in our external trade accounts, the weakness of the U.S. position--and the corresponding strength of the positions of a number of other industrial countries--became more apparent. This fundamental weakness became particularly clear in the spring of 1971 as the trade balance deteriorated sharply at a time when national economic conditions in the U.S. and abroad required monetary policies which led to large outflows of short-term capital from the United States. Crisis followed.

B. The U.S. Assessment at Mid-Year

By mid-1971, the enormous pressures of liquid capital movements and the secular deterioration in our underlying position had converged. The United States balance of payments was in deficit at an annual rate of nearly $23 billion on the official settlements basis in the first half of the year. Even more disturbing than this unprecedented figure was the strong evidence that the persistent deterioration in our basic payments accounts, and particularly in our trade position, had accelerated. Internal forecasts suggested the strong

probability (later confirmed) of a record deficit in the basic balance for the second half of 1971, and the 1972 outlook was for further deterioration. The merchandise trade account was expected to be in deficit at an annual rate of over $2 billion in the second half of 1971 and to deepen further in 1972 to some $3 to $4 billion--the first substantial U.S. trade deficits in this century.

Cyclical variations in economic conditions in the U.S. and other industrial economies can produce sizable swings in our payments position. Thus the actual data for any one period of time may not reflect the true state of the underlying position. For example, in 1970 the U.S. trade balance had improved considerably over the preceding year, from a surplus of $0.7 billion to one of $2.1 billion. In fact, however, the recorded trade surplus, when adjusted for cyclical factors, became a deficit of $1 billion. The comparable estimate for 1971 was a deficit of about $3-1/2 billion.

In an effort to measure the extent of the deterioration in our position, this cyclical adjustment technique was used to project our position for 1972. On the hypothetical assumption that the United States and other major countries would experience "normal" or satisfactory high employment levels of economic activity, the projections pointed to a trade deficit of $5 billion. This corroborated earlier evidence that the underlying U.S. trade position was undergoing a steady, sizable deterioration, year in and year out, at least since the middle 1960's. The projections also made it clear that unless the trade position improved substantially, interest payments on our liabilities to foreigners would rise almost as rapidly as income from U.S. investments abroad, so that we could not look to investment income as a substitute for a trade surplus. On a net basis, services (including military expenditures) and private remittances could not be expected to provide a surplus of much more than $1 billion annually.

Furthermore, government grants and capital outflows must be expected to continue at a rate of more than $4 billion, if the U.S. is to maintain the minimum necessary contribution to economic development. Outflows of long-term funds for private investment in less developed countries seemed likely to continue, while flows of long-term foreign capital from Europe to the U.S. could not be expected to reach a level which would offset direct and portfolio investment by Americans in Europe, Canada, and Japan.

Thus, in view of our responsibilities in providing assistance to developing nations and our economic role as a moderate supplier of private investment capital to the less developed world, net outflows of long-term capital and government grants could not reasonably be expected to fall below $6 billion annually. In addition, we expected to continue to experience net payments of about $1 billion annually in current account and long-term capital transactions which cannot be specifically identified.

This assessment of the world payments situation made it clear that a very sizable swing in our position--and corresponding changes in the positions of others--would be required to restore reasonable international payments balance.

Balance in the U.S. basic accounts, on the cyclically adjusted basis referred to above, would require a current account surplus large enough to cover our long-term capital outflows and government grant aid. Nearly the whole of the necessary current account surplus would have to be found in the trade account, at least for a number of years to come. The difference between the needed surplus and the deficit in prospect if no action was taken was massive. Drastic action would be required, even to restore the U.S. position to near-balance.

These international considerations coincided with the appearance of evidence that domestic recovery and the fight against inflation were not proceeding satisfactorily. Decisive action, then, was called for by both domestic and international conditions. A strong domestic economy would be essential to an improvement in our international position, and improvement in our balance of payments would aid the recovery of confidence and domestic economic activity.

C. The New Economic Policy

On August 15, 1971, President Nixon announced a new integrated program aimed at restoring domestic and international equilibrium to the United States economy.

This New Economic Policy constituted a bold and comprehensive change in U.S. economic policy, with three major interrelated objectives: to solve the inflation problem and break the inflation psychology in the United States; to stimulate the U.S. economy immediately and improve efficiency and competitiveness over the longer run; and to strengthen our position in the world economy and improve the international monetary and trading system.

Success in the domestic elements of the President's program would be essential to lasting success in the international sphere. The proposals for dealing with our domestic needs--including the price and wage stabilization measures, the Job Development Credit, the excise and income tax changes, and the reduction in Federal expenditures--constituted a major move to shift the domestic economy back toward a path of adequate growth and price stability.

The specific international measures announced in the President's program--the imposition of a temporary surcharge on dutiable imports and the suspension of convertibility of the dollar into reserve assets--were steps of great importance, both to the United States and to our trading partners. But they were not solutions in themselves. Rather, they were designed to provide needed support to our external financial and trading position while arrangements to cope with the difficult problems of international payments were developed and put into place.

The ten percent surcharge was suppressed as part of the settlement of near-term issues reached in Washington in December. The suspension of convertibility into gold and other reserve assets continues, although the dollar continues to serve as the major intervention currency in the purchase and sale of other currencies in world markets. The question of U.S. settlement of deficits in some form of reserve assets, as well as other important questions about the future structure of the international monetary system, are to be taken up in the context of discussions on longer-term reform.

The U.S. actions in the international field represented a turning point in U.S. foreign economic policy. They were a signal that the United States no longer had the financial or economic capacity to underwrite a system that was becoming more and more unbalanced. The serious erosion in the U.S. external position--which had occurred as countries strengthened their positions over the years--must be halted and reversed. Broad exchange rate changes were needed to restore a more equitable pattern which reflected the great changes in relative economic strength which have occurred in the past 25 years. Our major trading partners must allow access to markets on a more equitable basis if the benefits of our liberal trade policies were to be maintained and enlarged in the future. And there was ample room for improvement in the arrangements for sharing the costs of mutual security needs.

Beyond these problems of trade and payments interrelationships among nations, the monetary system itself--through which the effects of each country's policies are transmitted--must be changed to remove undesirable rigidities and to provide better balance in adjustment responsibilities, in the interest of avoiding the succession of crises that have marked recent years and of achieving a lasting stability.

In none of the major areas--changes in trading relationships, military burden sharing, or longer-term monetary reform--could one country dictate solutions to others. The U.S. program did not attempt to do so but simply set the stage for a cooperative multilateral effort.

V. Long-Term Monetary Arrangements

The official dollar price of gold was fixed at $35.00 per ounce by Executive Order in 1934. From that date until August 15, 1971, the United States has applied this official price in monetary transactions with foreign monetary authorities. This convertibility of the dollar into gold has since 1945 provided the link between currencies and gold for the world as a whole, as other currencies were convertible into dollars rather than into gold. This link to gold was suspended on August 15, 1971. United States reserves had been shrinking for many years, while other countries accumulated dollar claims on the United States which they treated as official reserves. Gold came to represent less than two-fifths of world reserves with dollars as the major growing component of world reserves. The strain on the dwindling United States reserves in August threatened to become unmanageable, draining our remaining reserve holdings to no constructive purpose. The suspension of convertibility halted this reserve outflow, and set the stage for a thoroughgoing and overdue ré-appraisal of some aspects of the international monetary system.

Major changes have occurred since 1934 in the economic and trading environment in which the international monetary system operates. The inter-war period was marked by domestic depression or stagnation in most major countries, very high levels of unemployment, low levels of world trade, and, particularly in the later years of the decade, very large movements of refugee capital from the Continent of Europe to Britain and the United States. By contrast, the 25 years since World War II have been characterized by unusually high levels of growth and employment in most industrial countries and an unprecedented rate of advance in the value of world trade. Inflation has been the major preoccupation of monetary authorities in the postwar period, in contrast to the persistent struggle against deflation and depression in the thirties. Despite the prevalence of inflation and, in recent years, a growing concern at the persistent payments deficit of the United States, the record of the 25 years since the Bretton Woods Agreements Act is one of extraordinary progress in the world's economy.

This progress has, however, been accompanied by growing strains on the international monetary system, caused by the weakening of the U.S. payments position in recent years.

Persistent surpluses in other industrial countries were accentuated by divergences of monetary policies and levels of interest rates between the United States and other countries, which have meant that the countries already in surplus on current account tended to attract still more dollars into their reserves.

To these two layers of strain on the monetary system a third has appeared, in the form of increased currency speculation in anticipation of revaluation or devaluation.

The experience of recent years has called attention to the asymmetry of the system and its apparent difficulties in achieving needed adjustment of payments positions in a manner consistent with open markets and monetary stability. It has been impossible for the United States to adjust its exchange rate unilaterally to correct its imbalance because most other currencies peg to the dollar and readily move if the dollar moves. The tendency of other exchange rates to move with the dollar is undoubtedly related to more deepseated economic and competitive considerations, including the relatively large size of the U.S. economy, as well as to monetary custom. On the other hand, it has been argued that the United States has not felt the full effects of its balance of payments deficit because it has not had to give up reserve assets or arrange special credits, as other countries would have to do. Thus, it is said, the United States has not had the constraints on monetary and other policies to the degree experienced by other countries, and has been able to tolerate imbalance for too long.

Such considerations led to a growing interest in longer-term improvement of international monetary arrangements, even before the crisis of May-August 1971. This interest was given formal expression in a resolution at the Annual Meeting of the International Monetary Fund on October 1, 1971 (See annex 5). The Ministers and Governors of the Group of Ten also agreed, in the Communique of December 18, 1971, that such discussions should be promptly undertaken, particularly in the framework of the IMF (See Annex 2).

In general terms, it seems clear that the structure and practices of the postwar monetary and trading system need to be modified to take account of the changed relative positions of the United States and the other leading

industrial countries, and also to deal more effectively with other difficulties that have emerged, both in the monetary system and in international trade relationships, here and abroad. Surplus countries as well as deficit countries will need to assume more active responsibility for a generally satisfactory inter-relationship of balances of payments on current account, and methods of better dealing with or absorbing short and long-term capital flows need to be developed. The exchange rate regime needs to be reviewed to support these objectives more fully.

National positions on the complex questions of long-term reform are not yet clearly formulated and may differ on some important aspects. Hence, discussion of longer-term reform may well extend over a year or two. Some of the specific issues for future discussions are mentioned briefly below.

A major unresolved question is how and under what conditions exchange rates can be changed in future, with adjustments appropriately shared among surplus and deficit countries. From the standpoint of the U.S., the question arises as to whether it has appropriate freedom of action to change its own exchange rate without corresponding changes by other countries.

How much emphasis should be given to changes in official par values, as against the use of market forces to produce adjustment in exchange rates? How wide should bands around official parities be? What should be the "rules of the road," or "code of conduct," and what role should the IMF exercise in this respect?

Concerning the appropriate form and level of international reserves, the major growth element in world reserves in the years 1950-71 has been dollars, generated by large U.S. deficits. Gold has become a smaller proportion of world reserves, and at the end of 1970 accounted for only 40.2 percent of global reserves, as compared with 69.3 percent in 1950. Tables 8, Annex 6, shows the changing composition of world reserves.

The United States and a number of other countries are firmly of the belief that the role of gold in the system must continue to diminish. An alternative form of liquidity, Special Drawing Rights, has the advantage that reserves in this form can be added to the world's reserves in desired amounts without an increase in the price of SDR's and without the need for large deficits on the part of the reserve country. Yet, a number of fundamental questions remain on the proper role of SDR's and reserve currencies and the total supply of world liquidity.

These questions are in turn, related to the extent and the conditions under which the United States ought to consider any move toward resumption of convertibility. Clearly under present conditions, the resumption of convertibility is not a practical possibility, with the full effects of the exchange realignment on our balance of payments becoming evident only in two years or more. United States reserve assets amounted at the end of 1971 to $12.1 billion, as against official dollar liabilities of more than $50 billion.

Changes in the monetary system alone will not solve problems of balance of payments adjustment. The competitive positions of private enterprise and the whole complex of national policies are reflected in world payments. No international financial arrangement can achieve and maintain a satisfactory pattern of world payments, consistent with monetary order and stability, without effective domestic economic performance. Moreover, explicit governmental policies exert strong effects on trade and other balance of payments accounts. And countries in relatively strong external positions are not going to be eager to accept changes which appear to reduce their competitive strength.

The global objectives are more difficult than in the past, because the United States can no longer, as in the earlier postwar years, afford to absorb so fully the financial and economic costs of leadership in trade and payments liberalization without commensurate contributions by others. Thus the fundamental need for international cooperation and understanding is the essential foundation for hope in an even better future than the great progress of the past.

In conclusion, important progress has been made in the past year. Some aspects of international financial arrangements which placed intolerable strain on the United States and on the monetary system as a whole have been modified. An unprecedented multilateral exchange rate realignment has been negotiated. Governments of the major trading countries have begun to recognize the need to review international trading relationships, and to improve international monetary arrangements over the longer term. The opportunity exists for a future even brighter than the past.

ANNEXES

ANNEX 1

Technical Explanation of Draft Par Value Modification Bill

Section 1. -- Short Title

This section provides that the bill may be cited as the "Par Value Modification Act."

Section 2. -- Devaluation Authorization

Section 5(b) of the Bretton Woods Agreements Act requires that Congress must give prior approval to any change in the par value of the dollar in the International Monetary Fund. Section 2 would give this approval by authorizing and directing the Secretary of the Treasury to take the necessary steps to establish a new par value for the dollar of one dollar equals one thirty-eighth (1/38) of one fine troy ounce of gold or $38.00 per fine troy ounce of gold. The initial par value of the dollar of one dollar equals one thirty-fifth of a fine troy ounce of gold was communicated by the Secretary of the Treasury John W. Snyder to the Fund in 1946.

Once Congressional approval is obtained, the Secretary will establish the new par value by communicating it to the Fund. Under Article IV, Section 5, of the Fund Articles of Agreement a change in par value may be made only to correct a fundamental disequilibrium and then only on the proposal of a member, after consultation with the Fund. While the Fund in certain circumstances has a right to object to a proposed change, it may not do so if the proposed change does not exceed 10 percent of the member's initial par value. Since the proposed change in the U.S. par value is less than 10 percent of the initial U.S. par value, the Fund may not object to this par value change.

Section 2 would provide that the par value of the dollar in the Fund will establish the relationship of the dollar to gold for international purposes. It does not establish a gold dollar as defined in Section 15 of the Gold Reserve Act of 1934 (31 U.S.C. 444). The gold dollar which would be superseded by this Act was relevant before par values were established in the Fund. The gold dollar is equal to 15 and 5/21 grains of gold nine-tenths fine. This value for the dollar was established by Presidential Proclamation 2072 of January 31, 1934, pursuant to the Thomas Amendment of May 12, 1933 (48 Stat. 51, 52), as amended by Section 12 of the Gold Reserve Act of 1934 (48 Stat. 337, 342).

There is one domestic purpose for which it is necessary to define a fixed relationship between the dollar and gold. Section 14(c) of the Gold Reserve Act of 1934 (31 U.S.C. 405b) provides that the amount of gold certificates issued and outstanding shall at no time exceed the value, at the legal standard, of the gold so held against gold

certificates. In order to set a legal standard for the issuance of gold certificates, Section 2 provides that the new par value shall define the relationship of the dollar to gold for the purpose of issuing gold certificates. Thus, after the new par value is established, gold certificates may be issued on the basis of $38 per fine troy ounce of gold instead of on the basis of the old par value of the dollar of $35 per fine troy ounce of gold.

Section 3. -- Maintenance of Value

Section 3 of the bill would authorize the Secretary of the Treasury to maintain the value in terms of gold of the holdings of United States dollars of the International Monetary Fund, the International Bank for Reconstruction and Development, the Inter-American Development Bank, the International Development Association and the Asian Development Bank to the extent provided in the Articles of Agreement of such institutions. Each of the Articles of Agreement establishing the foregoing international financial institutions contains a provision for maintaining the value in terms of gold of a member's currency when there is a reduction in any member's par value. The provisions do differ in detail and apply to the institutions' holdings of the members' currency, to members' subscriptions or to undisbursed balances of members' subscriptions.

The details of the nature of the obligations and the amount to be paid in with respect to each institution are contained in Section III-B of this background paper. Appropriations will be necessary to issue the letters of credit to fulfill the maintenance of value obligations. Section 3 would authorize the appropriation of such sums as may be necessary for this purpose, to remain available until expended. An exact sum cannot be specified since total obligations can only be definitively determined, in most cases, on the basis of dollar holdings as of the day on which the par value is changed.

Section 4. -- Increment in Value of Gold

Section 4 of the bill would provide that the increase in value of gold held by the United States, including the gold held as security for gold certificates, resulting from the change in par value authorized by Section 2 of this bill would be covered into the Treasury as a miscellaneous receipt. Section 7 of the Gold Reserve Act of 1934 (31 U.S.C. 408b) also provides that in the case of any decrease in the weight of the gold dollar, the resulting increase in value of gold would be covered into the Treasury as a miscellaneous receipt. This statute is inapplicable since as a technical matter there would be no reduction in the weight of the gold dollar but, instead, this concept would be superseded by the creation of a new par value for the dollar. Thus, to be explicit about the disposition of the increment in value of gold, Section 4 provides for payment of this increment of approximately $828 million to miscellaneous receipts of the Treasury.

ANNEX 2

18th December, 1971

PRESS COMMUNIQUE OF THE MINISTERIAL MEETING OF THE GROUP OF TEN ON 17TH - 18TH DECEMBER, 1971 IN WASHINGTON, D. C.

1. The Ministers and Central Bank Governors of the ten countries participating in the General Arrangements to Borrow met at the Smithsonian Institution in Washington on 17th - 18th December, 1971, in executive session under the Chairmanship of Mr. J. B. Connally, Secretary of the Treasury of the United States. Mr. P.-P. Schweitzer, the Managing Director of the International Monetary Fund, took part in the meeting, which was also attended by the President of the Swiss National Bank, Mr. E. Stopper, and in part by the Secretary-General of the O.E.C.D., Jonkheer E. van Lennep, the General Manager of the Bank for International Settlements, Mr. R. Larre, and the Vice-President of the Commission of the E.E.C., Mr. R. Barre. The Ministers and Governors welcomed a report from the Managing Director of the Fund on a meeting held between their Deputies and the Executive Directors of the Fund.

2. The Ministers and Governors agreed on an inter-related set of measures designed to restore stability to international monetary arrangements and to provide for expanding international trade. These measures will be communicated promptly to other governments. It is the hope of the Ministers and Governors that all governments will cooperate through the International Monetary Fund to permit implementation of these measures in an orderly fashion.

3. The Ministers and Governors reached agreement on a pattern of exchange rate relationships among their currencies. These decisions will be announced by individual governments, in the form of par values or central rates as they desire. Most of the countries plan to close their exchange markets on Monday. The Canadian Minister informed the Group that Canada intends temporarily to maintain a floating exchange rate and intends to permit fundamental market forces to establish the exchange rate without intervention except as required to maintain orderly conditions.

4. It was also agreed that, pending agreement on longer-term monetary reforms, provision will be made for 2-1/4 percent margins of exchange rate fluctuation above and below the new exchange rates. The Ministers and Governors recognized that all members of the International Monetary Fund not attending the present discussions will need urgently to reach decisions, in consultation with the International Monetary Fund, with respect to their own exchange rates. It was the view of the Ministers and Governors that it is particularly important at this time that no country seek improper competitive advantage through its exchange rate policies. Changes in parities can only be justified by an objective appraisal which establishes a position of disequilibrium.

5. Questions of trade arrangements were recognized by the Ministers and Governors as a relevant factor in assuring a new and lasting equilibrium in the international economy. Urgent negotiations are now under way between the United States and the Commission of the European Community, Japan, and Canada to resolve pending short-term issues at the earliest possible date and with the European Community to establish an appropriate agenda for considering more basic issues in a framework of mutual cooperation in the course of 1972 and beyond. The United States agreed to propose to Congress a suitable means for devaluing the dollar in terms of gold to $38.00 per ounce as soon as the related set of short-term measures is available for Congressional scrutiny. Upon passage of required legislative authority in this framework, the United States will propose the corresponding new par value of the dollar to the International Monetary Fund.

6. In consideration of the agreed immediate realignment of exchange rates, the United States agreed that it will immediately suppress the recently imposed 10 percent import surcharge and related provisions of the Job Development Credit.

7. The Ministers and Governors agreed that discussions should be promptly undertaken, particularly in the framework of the IMF, to consider reform of the international monetary system over the longer term. It was agreed that attention should be directed to the appropriate monetary means and

division of responsibilities for defending stable exchange rates and for insuring a proper degree of convertibility of the system; to the proper role of gold, of reserve currencies, and of Special Drawing Rights in the operation of the system; to the appropriate volume of liquidity; to re-examination of the permissible margins of fluctuation around established exchange rates and other means of establishing a suitable degree of flexibility; and to other measures dealing with movements of liquid capital. It is recognized that decisions in each of these areas are closely linked.

Changes in Average Appreciation Against Dollar
(Percent change in U. S. cents per foreign currency unit; Based on U. S. bilateral trade weights in 1970)

	April 30	August 13	December 17	New central rates 1/	December 30	February 4
OECD ex. Canada	0.7	2.6	8.4	11.8	10.1	12.1
OECD inc. Canada 2/	0.4	1.6	5.9	8.2 3/	6.8	7.9

Notes: A) Calculated on basis of percent difference between market rates and parities (market rate for Canada) on April 30, 1971.

B) Day-to-day market rates are not readily available for certain OECD currencies. For calculations prior to the realignment it was assumed that on April 30 there was zero appreciation of these currencies and on August 13 and December 17, 0.8 percent appreciation. Following realignment, new central rates were used where market rates were not available. The weights for these currencies, and the possible error in assumptions, are small: these assumptions do not significantly affect the averages.

1/ Actually, new "basic" rates against dollar, whether or not central rate formally established.

2/ If the calculation is made on the basis of the Canadian rate prior to initiation of the Canadian float in May 1970, the figures are as follows: April 30, 2.9%; August 13, 4.1%; December 17, 8.5%; new central rates, 10.6%; December 30, 9.4%; February 4, 10.5%.

3/ December 21 market rate for Canada used.

ANNEX 3

Annex 4

Exchange Rates and Exchange Rate Changes Against the Dollar
IMF Member Countries
(As of January 20, 1972)

Country	Percent Change Against U.S. Dollar[1]	New Exchange Rate (Foreign Currency Units Per Dollar)
OECD Countries[2]		
Australia	8.57	.82
Austria	11.59	23.30
Belgium	11.57	44.82
Canada	*	*
Denmark	7.45	6.98
Finland	2.44	4.10
France	8.57	5.12
Germany	13.57	3.22
Greece	0.0	30.00
Iceland	0.0	88.00
Ireland	8.57	.38
Italy	7.48	581.50
Japan	16.88	308.00
Luxembourg	11.57	44.82
Netherlands	11.57	3.24
Norway	7.49	6.65
Portugal	5.5	27.25
Spain	8.57	64.47
Sweden	7.49	4.81
Switzerland[3]	13.88	3.84
Turkey	7.14	14.00
United Kingdom	8.57	.38
Yugoslavia	-11.76	17.00
Non-OECD		
Algeria	8.57	4.55
Argentina	*	*
Barbados	8.57	1.84
Bolivia	0.0	11.88
Botswana	-4.76	.75
Brazil	*	*
Burma	-10.97	5.35
Burundi	0.0	87.50
Cameroon	8.57	255.79
Central Afr. Rep.	8.57	255.79
Ceylon	0.0	5.95
Chad	8.57	255.79
Chile	*	*

Footnotes at end of table.

Annex 4, Continued

Country	Percent Change Against U.S. Dollar[1]/	New Exchange Rate (Foreign Currency Units Per Dollar)
China	0.0	40.00
Congo, Peoples Rep.	8.57	255.79
Costa Rica	0.0	6.63
Cyprus	8.57	.38
Dahomey	8.57	255.79
Dominican Rep.	0.0	1.00
Ecuador	0.0	25.00
Egypt	0.0	.43
El Salvador	0.0	2.50
Equatorial Guinea	8.57	64.47
Ethiopia	8.57	2.30
Fiji	8.57	.80
Gabon	8.57	255.79
Gambia	8.57	1.92
Ghana	-43.88	1.82
Guatemala	0.0	1.00
Guinea	8.57	227.37
Guyana	0.0	2.00
Haiti	0.0	5.00
Honduras	0.0	2.00
India	3.03	7.28
Indonesia	0.0	415.00
Iran	0.0	75.75
Iraq	8.57	.33
Israel	-16.67	4.20
Ivory Coast	8.57	255.79
Jamaica	8.57	.77
Jordan	0.0	.36
Kenya	0.0	7.14
Khmer Rep.	*	*
Korea	*	*
Kuwait	8.57	.33
Laos	0.0	600.00
Lebanon	*	*
Lesotho	-4.76	.75
Liberia	0.0	1.00
Libyan Arab Rep.	8.57	.33
Malagasy Rep.	8.57	255.79
Malawi	8.57	.77
Malaysia	8.57	2.82
Mali	8.57	511.57
Malta	11.29	.37
Mauritania	8.57	255.79

Footnotes at end of table.

Annex 4, Continued

Country	Percent Change Against U.S. Dollar[1]	New Exchange Rate (Foreign Currency Units Per Dollar)
Mauritius	8.57	5.12
Mexico	0.0	12.50
Morocco	8.57	4.66
Nepal	0.0	10.13
New Zeland	8.57	.82
Nicaragua	0.0	7.00
Niger	8.57	255.79
Nigeria	8.57	.33
Pakistan	0.0	N.A.
Panama	0.0	1.00
Paraguay	0.0	126.00
Peru	0.0	38.70
Phillipines	*	*
Rwanda	8.57	92.11
Saudi Arabia	8.57	4.14
Senegal	8.57	255.79
Sierra Leone	8.57	.77
Singapore	8.57	2.82
Somalia	3.14	6.93
South Africa	-4.76	.75
Sudan	0.0	.35
Swaziland	-4.76	.75
Syrian Arab Rep.	0.0	4.30
Tanzania	0.0	7.14
Thailand	0.0	20.80
Togo	8.57	255.79
Trinidad & Tobago	8.57	1.84
Tunisia	8.57	.48
Uganda	0.0	7.14
Upper Volta	8.57	255.79
Uruguay	*	*
Venezuela	0.0	4.39
Viet-Nam	*	*
Yemen Arab Rep.	*	*
Yemen, People's Dem. Rep.	8.57	.38
Zaire	0.0	.50
Zambia	0.0	.71

*Not applicable because of maintenance of flexible rates.

1/ Expressed as percent change in U.S. cents per foreign currency unit, as compared with the rate on April 30, 1971.
2/ Members of the Organization for Economic Cooperation and Development
3/ Not a member of IMF.

ANNEX 5

October 1, 1971

INTERNATIONAL MONETARY SYSTEM
Resolution No. 26-9

WHEREAS the present international monetary situation contains the dangers of instability and disorder in currency and trade relationships but also offers the opportunity for constructive changes in the international monetary system; and

WHEREAS it is of the utmost importance to avoid the aforesaid dangers and assure continuance of the progress made in national and international wellbeing in the past quarter of a century; and

WHEREAS prompt action is necessary to resume the movement toward a free and multilateral system in which trade and capital flows can contribute to the integration of the world economy and the rational allocation of resources throughout the world; and

WHEREAS consideration should be given to the improvement of the international monetary system and the adjustment process; and

WHEREAS the orderly conduct of the operations of the International Monetary Fund should be resumed as promptly as possible in the interest of all members; and

WHEREAS all members of the Fund should participate in seeking solutions of the aforesaid problems;

NOW, THEREFORE, the Board of Governors hereby RESOLVES that:

I. Members of the Fund are called upon to collaborate with the Fund and with each other in order, as promptly as possible, to

(a) establish a satisfactory structure of exchange rates, maintained within appropriate margins, for the currencies of members, together with the reduction of restrictive trade and exchange practices, and

(b) facilitate resumption of the orderly conduct of the operations of the Fund.

II. Members are called upon to collaborate with the Fund and with each other in efforts to bring about

(a) a reversal of the tendency in present circumstances to maintain and extend restrictive trade and exchange practices, and

(b) satisfactory arrangements for the settlement of international transactions which will contribute to the solution of the problems involved in the present international monetary situation.

III. The Executive Directors are requested:

(a) to make reports to the Board of Governors without delay on the measures that are necessary or desirable for the improvement or reform of the international monetary system; and

(b) for the purpose of (a), to study all aspects of the international monetary system, including the role of reserve currencies, gold, and special drawing rights, convertibility, the provisions of the Articles with respect to exchange rates, and the problems caused by destabilizing capital movements; and

(c) when reporting, to include, if possible, the texts of any amendments of the Articles of Agreement which they consider necessary to give effect to their recommendations.

Tables and Charts

1. Reserve Change of all Countries Except U.S.
2. U.S. Reserve Assets and Liquid Liabilities to Foreigners
3. U.S. Official Reserve Transactions Balance and Net Liquidity Balance
4. U.S. Balances on Goods, Services & Remittances and on Long-Term Capital
5. U.S. Balance of Payments on Current and Long-term Capital Account
6. Trade and Military Expenditures
7. Deterioration in U.S. Trade Balance Since 1964
8. Composition of World Reserves, 1950-1971

Reserve Changes of All Countries Except U. S.
1970 to 1971

($ millions)

Country	Changes			Outstanding
	1970 Qtrly Average	1971 1st Qtr.	1971 2nd Qtr.	June 30, 1971
ipan	+297	+1059	+1902	7801
inada	+393	+166	+7	4852
	+2270	+3927	+1203	35133
Belgium-Lux	+115	+225	+124	3196
France	+282	+530	+165	5655
Germany	+1620	+2192	+894	6696
Italy	+77	+672	+66	6090
Netherlands	+176	+308	-46	3496
iited Kingdom	+75	+490	+303	3620
itzerland	+177	-509	+460	5083
eden	+16	+106	+98	965
ibtotal - G - 10	+3228	+5239	+3973	57454
.l Other Countries 1/	+970	+1801	+2330	33907e
tal, All Countries except U. S.	+4198	+7040	+6303	91361e
S. Off'l Reserve Trans. Balance	-2455	-5533	-5731	
of which Financed by:				
Sale of U.S. Reserve Assets	+619	+682	+659	
Incr. in U. S. liabilities to foreign off'l agencies	+1836	+4851	+5072	

Estimated
Except U. S.

U.S. Reserve Assets and Liquid Liabilities to Foreigners

This chart shows how our reserve assets have declined and our short-term liabilities to foreigners have risen until the short-term liabilities are now more than five times as large as our reserve assets.

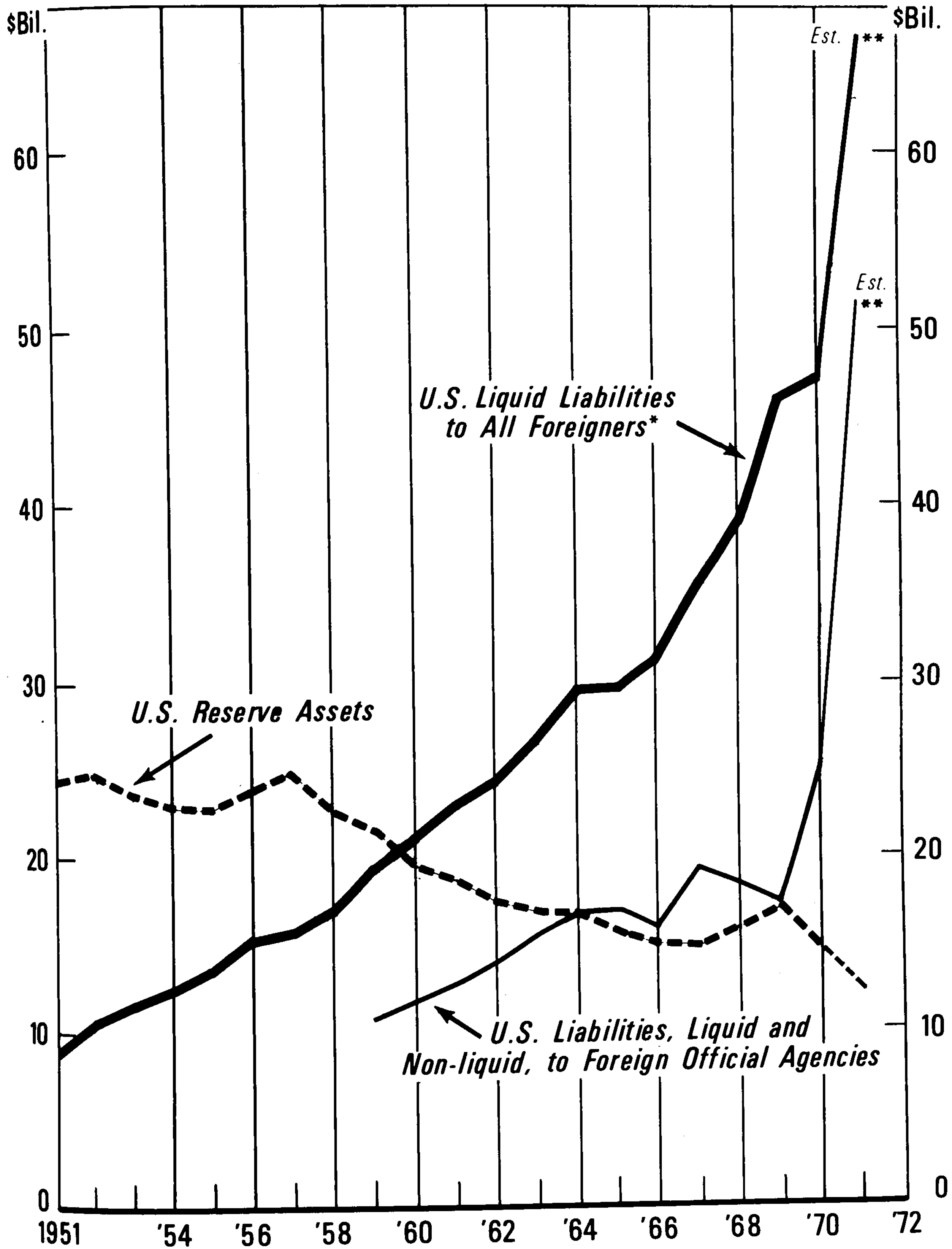
Our liabilities to foreign monetary authorities, which are included in the $68 billion figure of total liquid liabilities to foreigners, are currently estimated at $51 1/2 billion.

U.S. Reserve Assets AND Liquid Liabilities TO FOREIGNERS 1/
(in $ billions)

	U.S. Reserve Assets	U.S. Liquid Liabilities to All Foreigners 1/	U.S. Liabilities Liquid & non-liquid to Foreign Official Agencies
1950	24.3	8.9	n.a.
1951	24.3	8.8	n.a.
1952	24.7	10.4	n.a.
1953	23.5	11.4	n.a.
1954	23.0	12.5	n.a.
1955	22.8	13.5	n.a.
1956	23.7	15.3	n.a.
1957	24.8	15.8	n.a.
1958	22.5	16.8	n.a.
1959	21.5	19.4	(10.6)
1960	19.4	21.0	(11.9)
1961	18.8	22.9	(12.6)
1962	17.2	24.3	(13.8)
1963	16.8	26.5	(15.4)
1964	16.7	29.5	(16.7)
1965	15.5	29.7	(16.8)
1966	14.9	31.1	(16.0)
1967	14.8	35.8	(19.3)
1968	15.7	38.6	(18.5)
1969	17.0	46.0	(17.1)
1970	14.5	47.1	(24.5)
1971	12.1	68 est.	51 1/2 est.

1/ Including non-liquid liabilities to foreign official agencies

U.S. RESERVE ASSETS AND LIQUID LIABILITIES TO FOREIGNERS*



*Including non-liquid liabilities to foreign official agencies.
Source: Treasury Bulletin
** Dec. 31, 1971

U.S. OFFICIAL RESERVE TRANSACTIONS BALANCE AND NET LIQUIDITY BALANCE

The chart shows that the U.S. has had deficits in every year since 1960 on the net liquidity balance but that the deficit increased enormously in 1971. Measured on the official reserve transactions basis, we were in deficit in nine of the last twelve years, with a very large deterioration in 1970 and a further enormous deterioration in 1971.

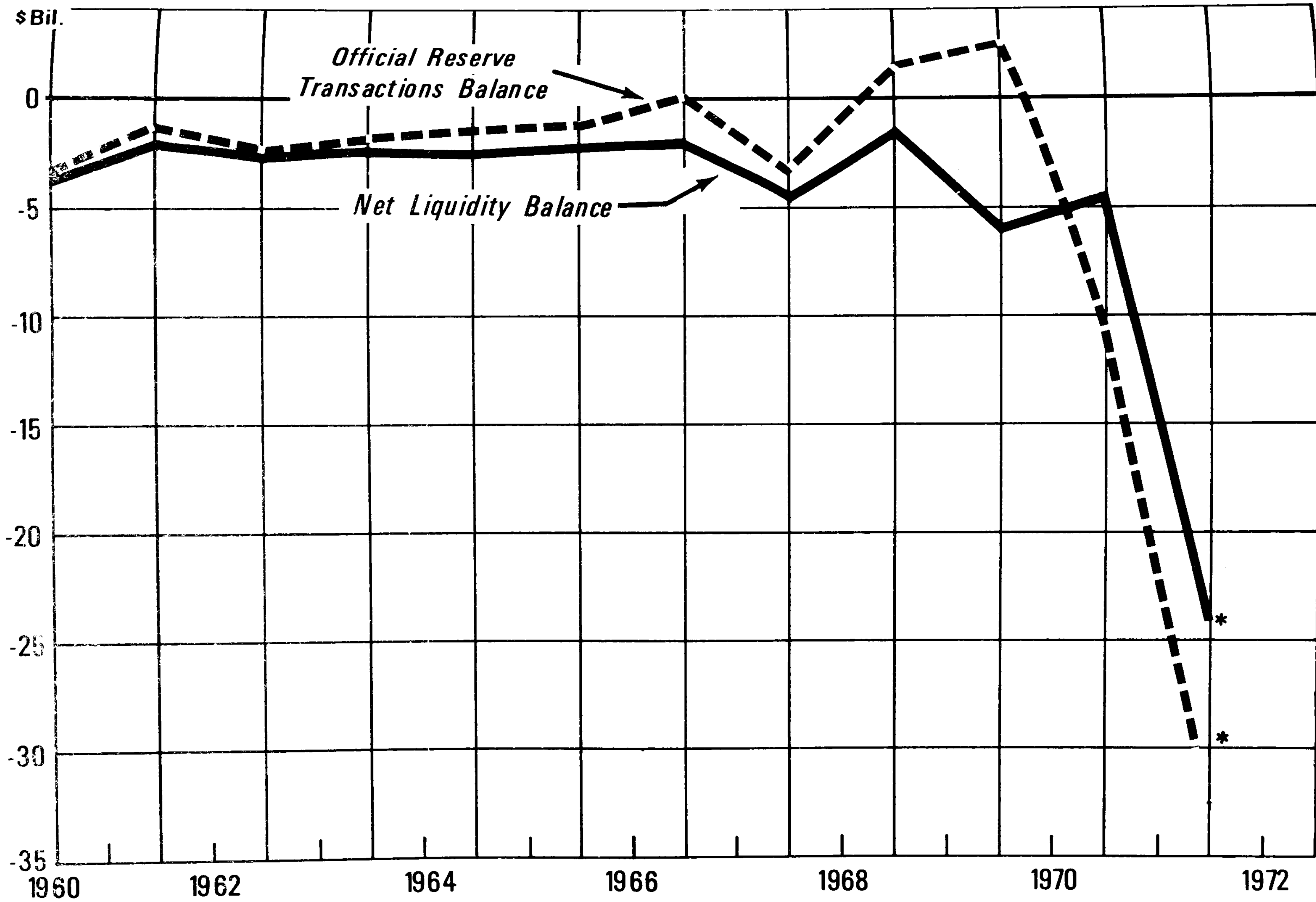
ANNEX 6 TABLE 3

MEASURES OF THE U.S. BALANCE OF PAYMENTS
OFFICIAL RESERVE TRANSACTIONS BALANCE
AND NET LIQUIDITY BALANCE
(billions of dollars)

	Net Liquidity Balance	Official Reserve Transactions Balance
1960	-3.7	-3.4
1961	-2.2	-1.3
1962	-2.8	-2.7
1963	-2.6	-1.9
1964	-2.7	-1.5
1965	-2.5	-1.3
1966	-2.1	0.2
1967	-4.7	-3.4
1968	-1.6	1.6
1969	-6.1	2.7
1970	-4.7 1/	-10.7 1/
1971	-24.0 1/ est.	-30 1/4 1/ est.

1/ Excludes SDR allocation of $867 million in 1970 and $717 million in 1971.

MEASURES OF THE U.S. BALANCE OF PAYMENTS



*Excludes SDR allocation of $867 million in 1970 and $717 million in 1971

SOURCE: U.S. DEPARTMENT OF COMMERCE, OBE

ANNEX 6 TABLE 4

U.S. Balances on Goods, Services & Remittances and on Long Term Capital

This chart is one of the series designed to show the structure of the U.S. balance of payments. It indicates that with minor exceptions the U.S. maintained a favorable balance on goods, services and remittances until 1971. At the same time we have experienced sizeable net outflows of long-term capital. These figures include the investments made by American firms as well as government loans and grants.

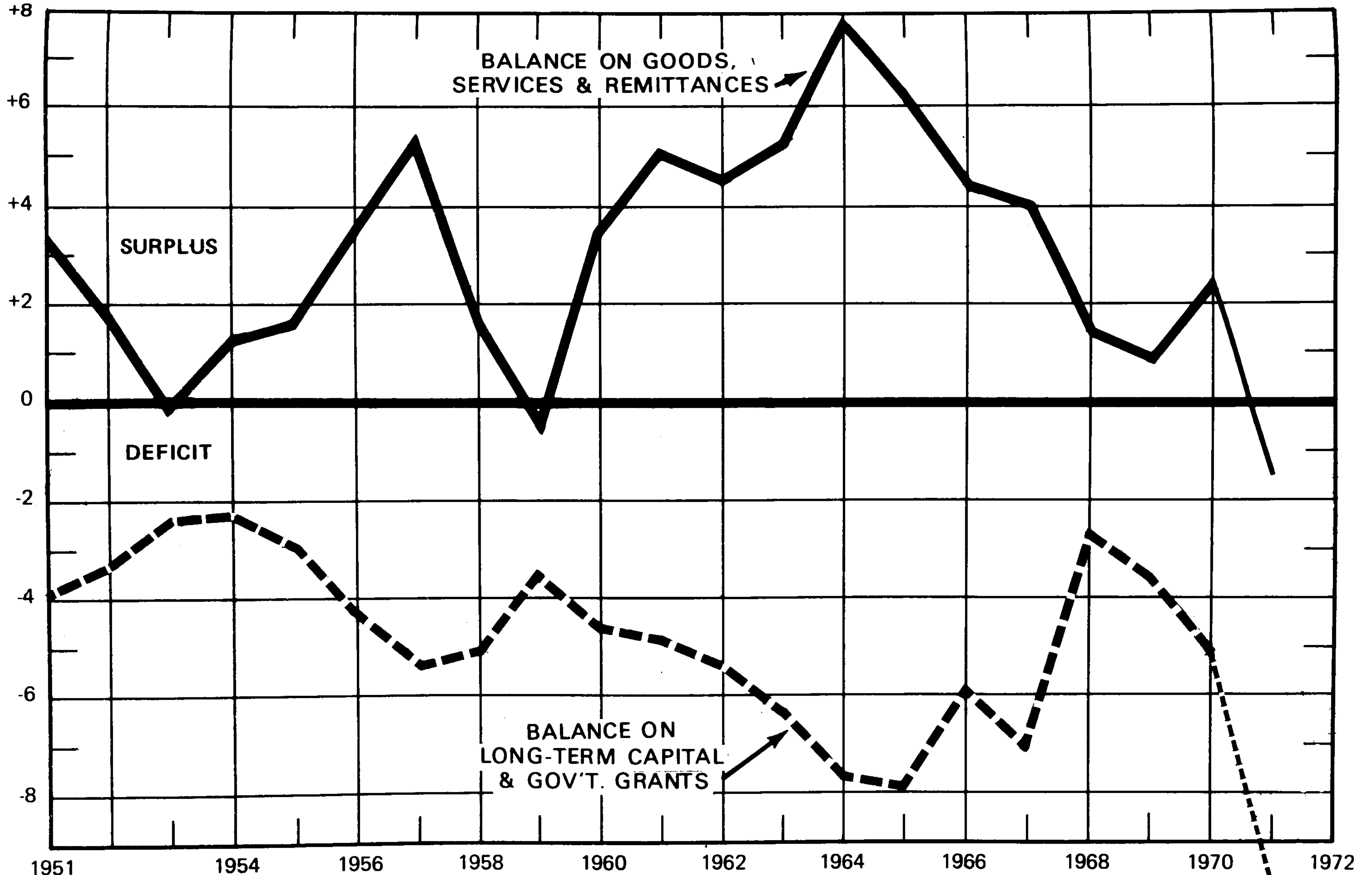
U.S. Balances on Goods, Services & Remittances
and on Long Term Capital
($ billions)

	Balance on Goods Services & Remittances	Balance on Long Term Capital 1/
1951	3.3	-3.6
1952	1.8	-3.4
1953	-0.1	-2.4
1954	1.3	-2.3
1955	1.6	-2.9
1956	3.5	-4.4
1957	5.2	-5.4
1958	1.6	-5.1
1959	-0.5	-3.6
1960	3.5	-4.7
1961	5.0	-4.9
1962	4.4	-5.4
1963	5.2	-6.4
1964	7.7	-7.7
1965	6.1	-7.9
1966	4.3	-5.9
1967	3.9	-7.1
1968	1.3	-2.7
1969	0.7	-3.6
1970	2.2	-5.2
1971	- 1 1/2 2/	-9 1/2 2/

Source: Survey of Current Business

1/ Including gov't econ. grants.

2/ Rough estimate based on incomplete data.


COMPOSITION OF U.S. BALANCE OF PAYMENTS
Balances on Goods, Services & Remittances, and on Long-Term Capital and Government Grants
$ Bil.
+8
+6
+4
+2
0
-2
-4
-6
-8
SURPLUS
DEFICIT
BALANCE ON GOODS, SERVICES & REMITTANCES
BALANCE ON LONG-TERM CAPITAL & GOV'T. GRANTS
1951
1954
1956
1958
1960
1962
1964
1966
1968
1970
1972
−9½*
SOURCE: SURVEY OF CURRENT BUSINESS
* Rough estimate based on incomplete data

ANNEX 6 TABLE 5

U.S. Balance of Payments on Current and Long-term Capital Account

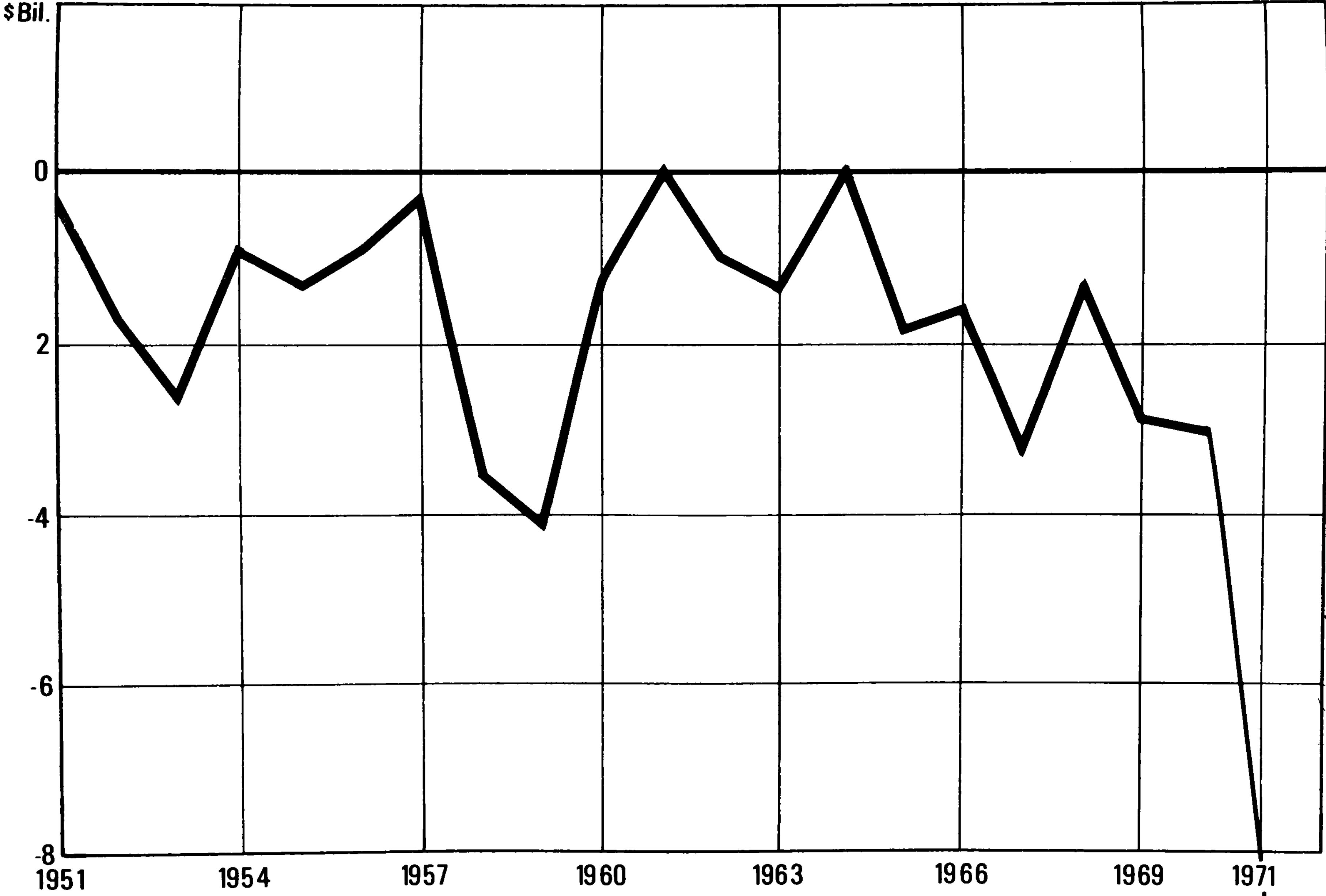
This chart shows that the United States has had a deficit on this balance in almost every year for the last 20 years. What this means is that the nation has not received enough from the sales of goods and services and from foreign investments here to offset the long-term investments made by U.S. industry and government outside the U.S.

U. S. Balance of Payments on Current and Long-term Capital Account
(Billions of dollars)

Year	Balance
1951	-0.3
1952	-1.7
1953	-2.6
1954	-0.9
1955	-1.3
1956	-0.9
1957	-0.3
1958	-3.5
1959	-4.1
1960	-1.2
1961	0
1962	-1.0
1963	-1.3
1964	0
1965	-1.8
1966	-1.6
1967	-3.2
1968	-1.3
1969	-2.9
1970	-3.0
1971	-11 1/

1/ Rough estimate based on incomplete data.

U.S. BALANCE OF PAYMENTS ON CURRENT AND LONG-TERM CAPITAL ACCOUNT



SOURCE: Survey of current business

* Rough estimate based on incomplete data

TRADE AND MILITARY EXPENDITURES

This chart shows that our merchandise trade balance varies greatly from year to year but that in recent years the trend was down. Our position is best when foreign countries are operating at or near capacity levels and our own economy is growing less rapidly. Thus we had a record trade surplus of nearly $7 billion in 1964, but under similar conditions in 1970 the surplus was only $2.1 billion. On the other hand, if the U.S. is experiencing a period of excess domestic demand our trade position tends to be weaker, particularly if some of our major markets should be going through periods of relatively slower growth. The very small trade surplus recorded in 1968 reflects these conditions. In 1971, even though the cyclical situation continued to favor the U. S. trade position, the trade balance moved into deficit.

The chart also shows that in the early 1960's, prior to Viet Nam, the U.S. was gradually reducing its net military expenditure outlay. Since 1965 that trend has been reversed. Last year, because of a large increase in foreign purchases of military equipment in this country, U. S. net military expenditures are estimated to have dipped below $3 billion for the first time since 1966.

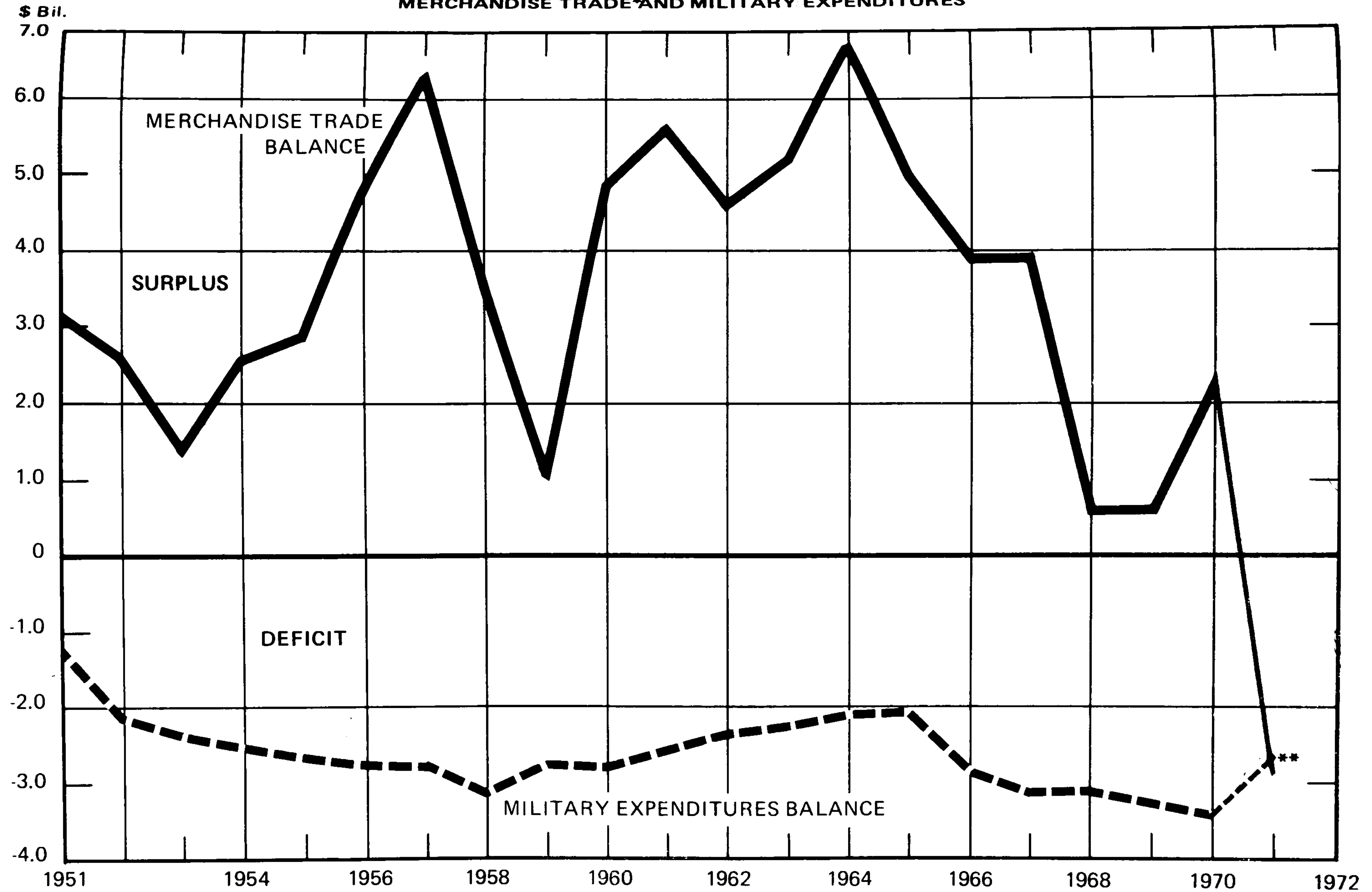
U.S. Merchandise Trade and Military Expenditures, net ($ billions)

	Trade Balance	Balance on Military
1951	3.1	-1.3
1952	2.6	-2.1
1953	1.4	-2.4
1954	2.6	-2.5
1955	2.9	-2.7
1956	4.8	-2.8
1957	6.3	-2.8
1958	3.5	-3.1
1959	1.1	-2.8
1960	4.9	-2.8
1961	5.6	-2.6
1962	4.6	-2.4
1963	5.2	-2.3
1964	6.8	-2.1
1965	5.0	-2.1
1966	3.9	-2.9
1967	3.9	-3.1
1968	0.6	-3.1
1969	0.6	-3.3
1970	2.1	-3.4
1971	-2.9	-2 3/4 1/

Source: Survey of Current Business

1/ Rough estimate based on incomplete data.

COMPOSITION OF U.S. BALANCE OF PAYMENTS
MERCHANDISE TRADE*AND MILITARY EXPENDITURES



SOURCE: SURVEY OF CURRENT BUSINESS

* *B/P Basis*

** Rough estimate based on incomplete data

DETERIORATION IN U. S. TRADE BALANCE SINCE 1964

The U. S. trade balance deteriorated by $9 billion between 1964 and 1971, going from a surplus of $7 billion in 1964 to a deficit of $2 billion last year. We experienced deterioration in our trade position with nearly all areas of the world except for Latin America and parts of Western Europe. As the chart illustrates, the deterioration in our trade with Canada and Japan exceeded $6.5 billion. Our deterioration with Japan was $3,447 million and our deterioration with Canada was $3,072 million. With the EC, our trade position deteriorated by $1.6 billion.

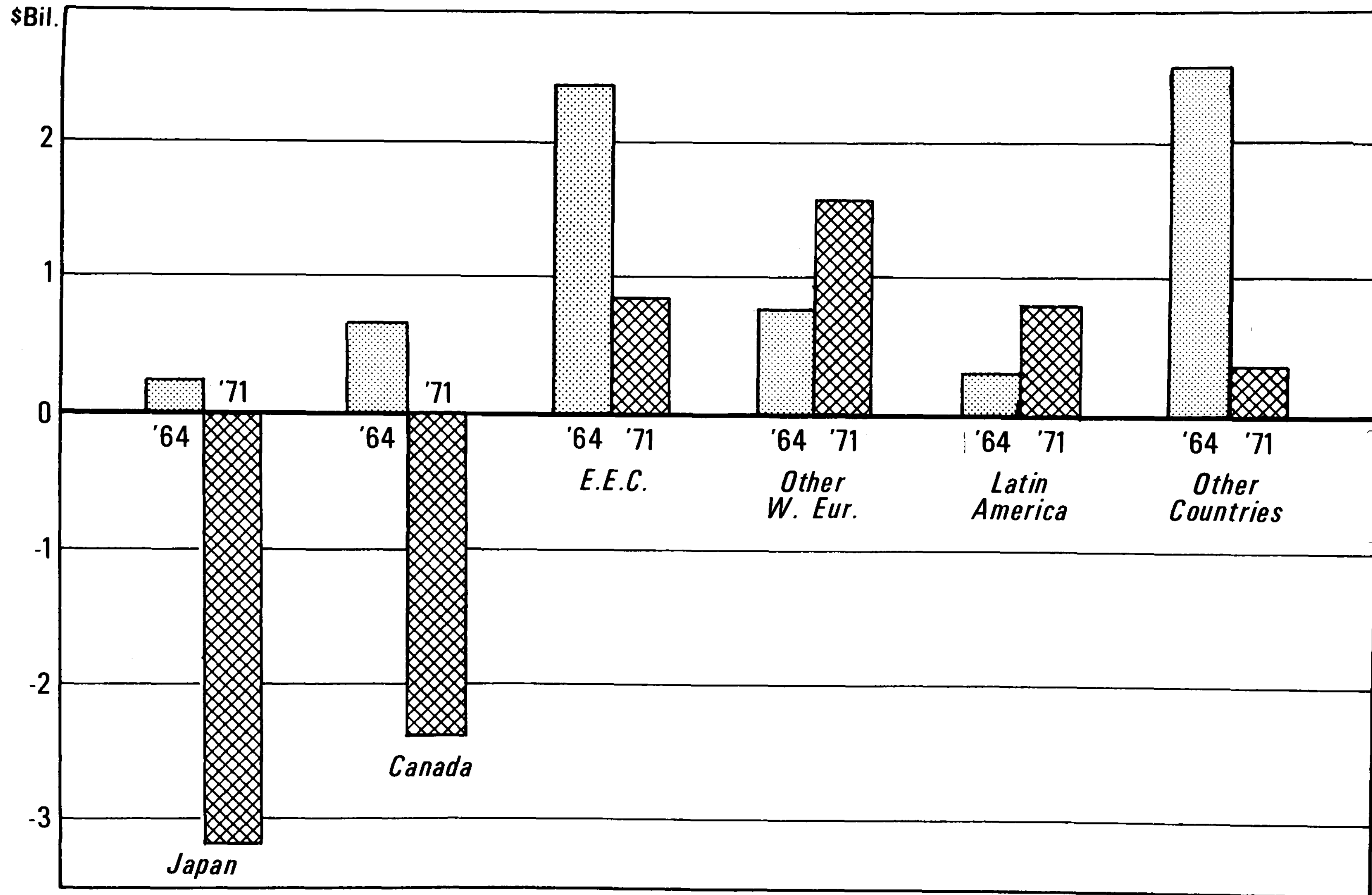
DETERIORATION IN U. S. TRADE BALANCE SINCE 1964

(millions of dollars)

	1964	1971
Japan	241	-3206
Canada	676	-2396
EEC	2438	865
Other W. Europe	766	1567
Latin America	308	794
Other Countries	2577	329

Source: FT 990, U. S. Census Bureau

DETERIORATION OF U.S. TRADE BALANCE SINCE 1964



Source: FT 990, U.S. Census Bureau

THE COMPOSITION OF WORLD RESERVES, 1950 - 1971

This chart shows that the proportion of world reserves represented by gold has declined from more than two-thirds of the total in 1950 to less than one-third on September 30, 1971. Foreign exchange, on the other hand, has increased from one-fourth of total reserves in 1950 to almost 60 percent in 1971.

THE COMPOSITION OF WORLD RESERVES, 1950 - 1971
(Millions of Dollars)

End of Year	Gold (All Countries)	Foreign Exchange	Reserve Position in The Fund	SDR's	Total Reserves
1950	33,755	13,290	1,671	n.a.	48,715
1951	33,925	13,720	1,713	"	49,360
1952	33,900	14,245	1,777	"	49,920
1953	34,320	15,565	1,891	"	51,780
1954	34,950	16,675	1,845	"	53,470
1955	35,410	17,015	1,880	"	54,305
1956	36,055	17,820	2,278	"	56,150
1957	37,305	17,025	2,313	"	56,645
1958	38,030	17,120	2,557	"	57,710
1959	37,880	16,385	3,250	"	57,520
1960	38,065	18,985	3,570	"	60,620
1961	38,890	19,625	4,158	"	62,675
1962	39,275	20,035	3,795	"	63,110
1963	40,225	22,455	3,940	"	66,620
1964	40,840	24,040	4,155	"	69,035
1965	41,855	23,790	5,376	"	71,015
1966	40,910	25,405	6,330	"	72,640
1967	39,505	29,020	5,748	"	74,270
1968	38,940	31,910	6,488	"	77,330
1969	39,125	32,345	6,726	"	78,190
1970	37,185	44,520	7,697	3,124	92,505
1971 1/	36,230 e	68,930 e	6,279	5,894	117,330 e

1/ End September

n.a. not applicable
e estimate

Source: Supplement to 1966/67 and January 1972 I.F.S.

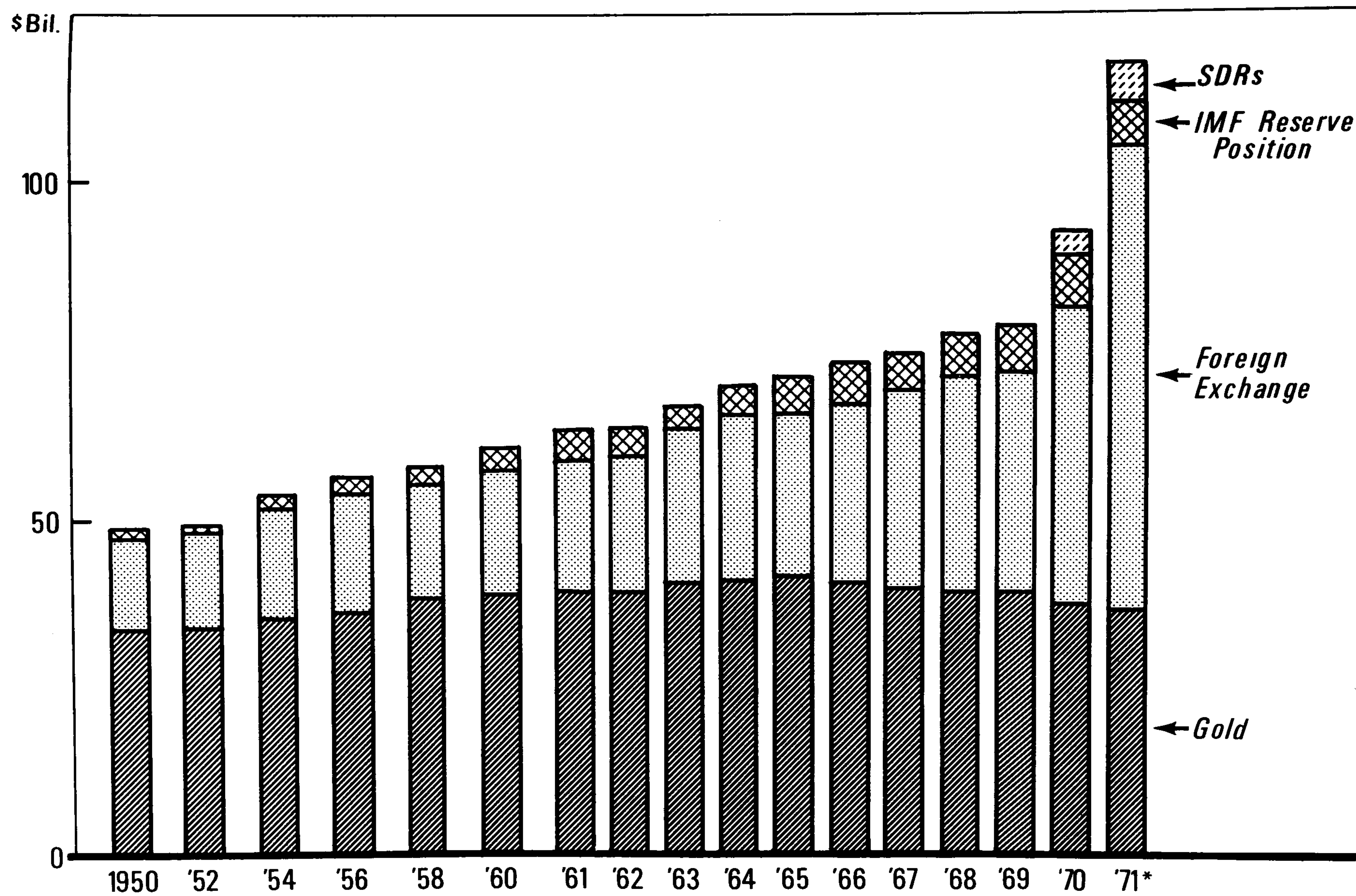
THE PERCENTAGE COMPOSITION OF WORLD RESERVES, 1950 - 1971

End of Year	Gold (All Countries)	Foreign Exchange	Reserve Position in The Fund	SDR's	Total Reserves
1950	69.3	27.3	3.4	n.a.	100.0
1951	68.7	27.8	3.5	"	100.0
1952	67.9	28.5	3.6	"	100.0
1953	66.3	30.1	3.7	"	100.0
1954	65.4	31.2	3.5	"	100.0
1955	65.2	31.3	3.5	"	100.0
1956	64.2	31.7	4.1	"	100.0
1957	65.9	30.1	4.1	"	100.0
1958	65.9	29.7	4.4	"	100.0
1959	65.9	28.5	5.7	"	100.0
1960	62.8	31.3	5.9	"	100.0
1961	62.1	31.3	6.6	"	100.0
1962	62.2	31.7	6.0	"	100.0
1963	60.4	33.7	5.9	"	100.0
1964	59.2	34.8	6.0	"	100.0
1965	58.9	33.5	7.6	"	100.0
1966	56.3	35.0	8.7	"	100.0
1967	53.2	39.1	7.7	"	100.0
1968	50.4	41.3	8.4	"	100.0
1969	50.0	41.4	8.6	"	100.0
1970	40.2	48.1	8.3	3.4	100.0
1971 1/	30.9	58.7	5.4	5.0	100.0

1/ End September

n.a. not applicable

Source: Supplement to 1966/67 and January 1972 IFS


COMPOSITION OF WORLD RESERVES, 1950-1971
$Bil.
100
50
0
SDRs
IMF Reserve Position
Foreign Exchange
Gold
1950
'52
'54
'56
'58
'60
'61
'62
'63
'64
'65
'66
'67
'68
'69
'70
'71*
*End September 30

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

NEWS

FOR IMMEDIATE RELEASE February 10, 1972

ANTIDUMPING PROCEEDING INITIATED ON PRINTERS' RUBBERIZED BLANKETS FROM THE UNITED KINGDOM

The Treasury Department announced today the initiation of an antidumping investigation of imports of printers' rubberized blankets from the United Kingdom. Printers' rubberized blankets are used by the printing industry in lithographic and offset printing.

The Treasury announcement followed a summary investigation conducted by the Bureau of Customs after receipt of a complaint alleging that dumping was taking place in the United States.

The total value of printers' rubberized blankets imported from the United Kingdom during the period from January 1970 through August 1971 amounted to approximately $1.2 million.

# # #

The Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE WO4-2041

OR RELEASE UPON DELIVERY

REMARKS OF EUGENE T. ROSSIDES
ASSISTANT SECRETARY OF THE TREASURY
(ENFORCEMENT, TARIFF AND TRADE AFFAIRS, AND OPERATIONS)
BEFORE THE WINTER MEETING OF THE
NEW YORK STATE SOCIETY OF NEWSPAPER EDITORS
HYATT THRUWAY HOUSE, ALBANY, NEW YORK

February 10, 1972 7:00 p.m.

I would like to discuss briefly two subjects tonight, both of which have a vital bearing on our society -- (1) the President's New Economic Policy and the right to compete fairly abroad; and (2) the President's war on drug abuse. I look forward to your questions on these and other topics.

The Right to Compete Fairly Abroad

On August 15, President Nixon set a new economic course for America. In doing so, the President declared:

> "America has the best opportunity in this century to attain two of its greatest ideals; to bring about a full generation of peace, and to create a new prosperity without war."

The President's New Economic Policy is designed to generate jobs, reduce inflation, and strengthen the position of the United States in the world economy.

Promoting a Healthy Domestic Economy

Progress has been made in promoting a healthy domestic economy. The pace of economic activity has picked up and inflation is coming under control.

The signs and portents of the future course of the economy are pointing to vigorous economic growth in 1972. On the inflation front, the freeze was almost totally successful in stopping increases in wages and prices.

Phase II, with its comprehensive, mandatory system of controls, based on more flexible and equitable standards than were possible during the freeze, is continuing the inflation battle.

The President's tax proposals enacted with some modifications by the Congress, will stimulate the economy and reduce unemployment in the United States.

Real economic growth is likely to be more vigorous in 1972 than at any time over the past five years.

The International Program

August 15, 1971, marks an historic watershed -- the end of an era and the birth of a new era. The task facing the United States and the world community is the creation of an international economic system which will draw nations and people together, which will stimulate international trade and freer competition, which will, in effect, form the basis for a lasting peace with prosperity.

The Smithsonian Agreement of December 18, 1971, was a significant breakthrough and has given the new era a substantial forward thrust. That agreement included a multilateral realignment of exchange rates, commitment to discussion of more general reform of the international monetary system, commitment to begin discussions to reduce trade barriers, including some most harmful to the U.S., and the assumption of a larger share of the cost of common defense by some of our allies. The United States agreed to recommend to the Congress that the price of gold in dollars be raised when progress had been made in trade liberalization.

Yesterday, Secretary Connally transmitted to the Congress a draft bill providing for devaluation of the dollar by 8.57 percent to $38 per ounce of gold. This bill was submitted following an agreement reached between Japan and the United States to remove or lower certain barriers to U.S. exports. Substantive agreements have also been reached with the European Community subject to final approval by its Council. Regrettably, no agreement was reached with Canada. The United States will seek appropriate means of reducing imbalances in trade agreements between Canada and the United States.

Most important, Japan has joined with us in a commitment to initiate and actively support multilateral and comprehensive trade negotiations beginning in 1973, and to solve more immediate problems in the context of the GATT during 1972; and the European Community is joining with the United States in a similar commitment subject to final approval by its Council. The Administration will seek legislative authority for the comprehensive trade negotiations.

Why Are We in a New Era?

At the end of World War II, the United States was the wealthiest, most powerful nation on earth. A large part of the world was in ruins politically, economically, physically, and morally after the holocaust that it had just experienced. The United States exhibited truly unselfish and generous leadership in an effort to bring things back to normal. We did this at enormous self-sacrifice.

At a time when it made sense for the United States to do everything possible to assist our former allies and enemies to regain their feet, we literally showered U.S. dollars and expertise on these countries. The American taxpayer accepted the burden of the nearly $150 billion in economic and military aid that was made available over the past 25 years, for he understood the relationship between a prosperous world economy and his own well-being.

But conditions have changed and we now find ourselves confronted with an entirely different picture. Although the United States is the most important free world power, it is no longer the only free world power. Other nations are again in a position to challenge us economically, militarily, and politically. The United States is now one giant among several.

The Right to Compete Fairly Abroad

The President and Secretary Connally have served notice that the United States is no longer going to compete with one hand behind its back. To compete fairly abroad, we must have fair access to the markets of Europe, Asia, South America, Africa, and the rest of the world.

In taking a new posture, I do not mean to imply that the United States is expecting to obtain something for nothing. What we do have a right to insist on in our trade negotiations is a fair bargain. We insist only on the right to compete fairly abroad.

As Secretary Connally said in Munich last May:

> "...no longer will the American people permit their government to engage in international actions in which the true long-run interests of the U.S. are not just as clearly recognized as those of the nations with which we deal."

Progress has been made on trade matters with Japan and the Common Market. But this is just the beginning of a long and difficult road ahead. The point that must be conveyed to all is that the United States can no longer afford to maintain a soft posture in the face of unwillingness by foreign governments to agree to reasonable reforms.

That the press has a crucial role in this historic process is obvious. The full extent of that role may not be so obvious. One aspect of that role is the full exposition, and on a continuing basis, of the unfair trade practices of foreign governments against American goods and investments.

Restrictions on U. S. Trade

Remember when our foreign friends complained about the temporary 10% additional duty adopted as part of the President's new economic program?

What our foreign friends did not mention in their complaints are the barriers they maintain against U. S. exports to their countries. These barriers take various forms, some of them subtle and others not so subtle.

Some of our foreign friends maintain quota restrictions on computers and other products which the United States is in a particularly strong position to export -- this notwithstanding the fact that there is no balance of payments justification for such restrictions.

Some of our foreign friends apply progressive tax rates on automobiles on the basis of horsepower ratings and road taxes which are more burdensome for larger cars, thereby effectively blocking the more heavily powered American automobiles from their domestic markets.

The Japanese recently liberalized their quota system with respect to the importation of live cattle. But when they did, they put a tariff of $135 on calves, which is equivalent to the total value of a 300-pound calf.

Japan, which was allowed to maintain quotas for balance of payments reasons when it entered GATT, still retains these quotas -- this despite an economic recovery which is commonly referred to as the Japanese miracle.

As mentioned earlier, some progress has been made in our trade talks with Japan.

But it was not only the Japanese with whom we had such imbalances or discriminations. It is for this reason that we could no longer remain silent while European countries systematically limited access of Japanese products to their markets, thus encouraging Japan to overemphasize dependence on U.S. markets for her exports.

Some of our foreign friends arbitrarily increase, purely for Customs valuation purposes, the appraised value of American imports. The increased duties collected as a result of this practice are hardly calculated to encourage international trade.

We could no longer remain silent in the face of arbitrary restrictions on U.S. agricultural exports to the heavily populated continent of Europe, and to the Common Market in particular.

We could no longer remain silent while the Common Market extends special trade preference arrangements to country after country which is not a member of the Common Market.

We could no longer remain silent while the Common Market seeks special preferences from these same countries.

We could no longer remain silent while countries discriminate in credit and payment terms between domestic and imported products, and grant more favorable interest rates for export credits than for import credits. Such practices effectively block foreign competition and provide artificial barriers to protect domestic production.

We have heard, from our good and valued neighbor to the north, a great deal about the "unfairness" of the new economic policy from their standpoint. But what they tend to overlook is that the $600 million trade surplus we enjoyed with them in 1965 has, largely as a result of our concessions to them, been transformed into a U.S. trade deficit of $1.6 billion.

Notwithstanding the balance of trade which is now so favorable to our neighbor to the north, they are less liberal than the United States in granting exemptions to returning tourists.

To the south, Mexico is preventing its citizens from crossing the border for duty free shopping in the United States.

Let me make it clear that we are not seeking special treatment for the United States. We recognize that some of our practices are regarded by other countries as discriminatory. We do not pretend to be blameless in this regard.

The Future

The President has made it clear that he intends to meet the challenge of the future by stimulating our economy to ensure our continued efficient and competitive position in the world. This means that inflation and unemployment in the United States will be reduced while investment in new plants and equipment by the private sector are stimulated.

While building this stronger economy at home, we must remain outward looking and international in our initiatives overseas. This Administration is committed to such a course.

As Secretary Connally said when he addressed the Economic Club of New York last fall:

> "We do not intend to become provincial. We shall not resort to protectionism. We shall carry our burdens on the international scene. But to do so it is essential to attain an equilibrium in our overall financial balance with the rest of the world. We seek no advantage of others. We propose to suffer no disadvantage. We seek a balance which will be to the benefit of all the nations."

***

> "At stake are not narrow or selfish economic goals; beyond a fair balance of opportunity, we seek none. The basic issue is much broader. It is nothing less than rebuilding the economic foundation for promoting economic development, military security, and the free flow of commerce.

> "To fail in our effort would be to fail not only as an Administration, nor even as a Nation. At stake is nothing less than the foundation for the freedom and security of this generation, and those that follow."

All Americans and all countries must be willing to make the necessary sacrifices and, as a result, all Americans and all countries will be beneficiaries.

What we seek are the conditions that will encourage freer and fairer trade throughout the entire world, develop growing domestic enterprise and employment, and insure these gains against the erosion of inflation.

The President's New Economic Policy advances his goal by laying the foundations for peace with prosperity throughout the world.

The War on Drug Abuse

Let me begin this part of my remarks on a note of hope and with a challenge.

In my judgment, President Nixon's war against drug abuse is succeeding. He has:

1. Arrested the United States' incredible downward slide into drug abuse; and

2. Alerted the international community to the global problem of drug abuse. More has been done by the international community to attack drug abuse in the last two and one-half years than in the previous twenty-five years.

But let there be no false optimism. We have a long and steep climb ahead of us just to return to the level from which we fell. It will require the active participation of all of us. However, I am confident that the challenge will be met.

The challenge facing all of us is to galvanize into action against drug abuse on a twenty-four hour a day, seven day a week basis.

President Nixon started his war on drugs the first month of his Administration when he established the Interdepartmental Task Force on Narcotics, Marijuana and Dangerous Drugs that led to Operation Intercept in September, 1969, and Operation Cooperation in October, 1969. He has escalated that war with a series of action programs, and progress has been made.

Let me mention some of those programs with an example or two of the specific actions taken.

First, he elevated the drug problem to the foreign policy level and has taken personal initiatives in soliciting the cooperation of other governments.

In September, 1971, he created a Cabinet Committee on International Narcotics Control under the Chairmanship of Secretary of State William P. Rogers. Secretaries Connally and Laird, Attorney General Mitchell, CIA Director Helms, and U.N. Ambassador Bush are members.

On June 30, 1971, there was a joint announcement by Prime Minister Erim of Turkey and President Nixon that Turkey had decreed that after the one-year delay required by the law of Turkey, cultivation of the opium poppy would no longer be legal in Turkey.

Multilateral action through the United Nations has been stimulated. The creation of a United Nations Fund for Drug Control has been recommended and the United States has already contributed $1 million and pledged $1 million more.

Bilateral arrangements have been concluded with Canada and Mexico for cooperation and mutual assistance along our land borders and with Turkey and France to control drug trafficking and smuggling.

Cooperation has been achieved with the Governments of South Vietnam and Thailand for suppression of illegal traffic in dangerous drugs.

Second, he placed particular emphasis on the crucial roles of education, research, and rehabilitation and provided increased funds in these three essential areas.

The Special Action Office for Drug Abuse Prevention was established on an interim basis in June of 1971 under Dr. Jerome Jaffe to coordinate Federal action in the fields of education, research, and rehabilitation.

Third, he recommended differentiation in the criminal penalty structure between heroin and marijuana; and flexible provisions for handling first offenders.

The essence of the President's proposals was adopted in the Comprehensive Drug Abuse Prevention and Control Act of 1970. Model State narcotics legislation, also recommended by the President, has been adopted by 26 states and is being considered in 15 others.

Fourth, he stressed total community involvement-- the private sector as well as governmental agencies-- in this anti-drug abuse drive.

Fifth, he provided a substantial increase in budgetary support for Federal law enforcement in this area.

In December, 1969, Congress provided $8.75 million for 915 additional men and equipment for the drug anti-smuggling program of the Bureau of Customs. In 1971, Congress authorized for the Customs program an additional 1,000 personnel and major additions to equipment. Comparable increases have been made in funds provided for the Bureau of Narcotics and Dangerous Drugs. Congress also provided for Treasury's Internal Revenue Service an additional $7.15 million for fiscal 1972 and authorization for 541 additional positions to concentrate, along with experienced Special Agents, on tax investigations of major narcotics traffickers.

As the President stated on January 28, 1972:

"As far as law enforcement obligations relating to drug abuse are concerned, the level has increased more than eight-fold in our first three years in office--from $20.2 million to $164.4 million. We plan to increase this figure by another $64.6 million next year to the $229 million level."

Sixth, he recognized the central role of the states and the need for close Federal-state cooperation in a unified drive against drug abuse. The pioneering efforts of Governor Rockefeller and the enormous resources applied by New York State to the war on drug abuse have been of tremendous assistance to the Federal Government's efforts.

On January 28, 1972, the President established the Office for Drug Abuse Law Enforcement in the Department of Justice to be headed by former Commissioner of Customs Myles J. Ambrose. This program will concentrate an assault on the street level heroin pusher. The new office will be working closely with state and local enforcement agencies.

That the press has a crucial role in this area also is obvious. Again, however, the full extent of that role may not be so obvious. One aspect of that role is the full exposition, and on a continuing basis, of the actions or lack of actions of foreign governments, as well as our own government.

In this program, we have seen for the first time the total involvement of the institution of the Presidency in the battle against drug abuse.

It is this program that has given me the basis for the cautious optimism I am expressing. In my opinion, drug abuse, particularly with regard to heroin, has

reached its peak and has leveled out. Perhaps it has even begun to recede. But certainly I am aware, as each of you is, that we have a long hard battle ahead of us to bring that line back down to the level on the chart from which it started!

I will answer any questions that you may have.

oOo

The Department of the TREASURY

WASHINGTON, D.C. 20220 TELEPHONE W04-2041

NEWS

FOR IMMEDIATE RELEASE February 10, 1972

TREASURY REQUESTS IMF WITHDRAWAL OF $544 MILLION IN GOLD

The Treasury Department today announced that it has requested the IMF, prior to the proposed change in parity of the dollar, to reclaim from the Treasury $544 million in gold. This amount includes the repurchase of $400 million in gold which the IMF has the right to repurchase at any time and the withdrawal of $144 million of gold which the IMF maintains on deposit in connection with the general quota increase of 1965.

The United States believes that there is no longer a compelling reason from the standpoint of either party for these claims on the U.S. gold stock to remain outstanding. The arrangements underlying these gold obligations provide that the United States must maintain the gold value of the respective claims by the IMF on the U.S. gold stock. There is, therefore, no financial consideration or benefit involved for either party in the choice of whether the repurchase and withdrawals are made before or after the parity change of the dollar.

The liquidation of these claims will leave a U.S. gold stock of $9,662 million ($10,490 million at the proposed new official price of $38 per ounce) free of all claims.

The IMF sold $800 million in gold to the United States in several transactions during the years 1956, 1959 and 1960. These sales were made to the United States to provide the IMF with funds for investment in U.S. Treasury debt instruments to supplement its income in order to assure meeting its administrative expenses without reducing capital, and to establish a reserve for this purpose. Half of this

investment was eliminated in September 1970 by the repurchase of $400 million in gold by the IMF. It is now felt the remaining $400 million should be eliminated. The Fund's accumulated reserves are now approximately $780 million, of which approximately $415 million have been realized from the gold investment.

The $144 million gold deposit in connection with the 1965 general quota increase was designed to mitigate the effects on the U.S. gold stock of concentrated purchases of gold from the United States by other countries which had to pay gold to the IMF as part of the subscription to their quota increases. These deposits originally amounted to $250 million, of which there have been withdrawals from time to time totaling $106 million. Under present circumstances there appears to be no useful purpose served in continuing to stretch out withdrawals of the remaining balance.

These two obligations are specific gold liabilities of the United States to the International Monetary Fund. They were not affected by the decision of last August 15 to suspend the general convertibility of dollars into gold. There are no other such gold liabilities of the United States. The requested liquidation of these specific claims against the U.S. gold stock has no significance or implication with respect to use by the United States of any of its remaining reserve assets.

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

FOR IMMEDIATE RELEASE February 11, 1972

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 $4,200,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing February 24, 1972, in the amount of $3,900,565,000, as follows:

91-day bills (to maturity date) to be issued February 24,1972, in the amount of $2,400,000,000, or thereabouts, representing an additional amount of bills dated November 26, 1971, and to mature May 25, 1972, (CUSIP No. 912793 NC6), originally issued in the amount of $1,600,340,000, the additional and original bills to be freely interchangeable.

182- day bills, for $ 1,800,000,000, or thereabouts, to be dated February 24, 1972, and to mature August 24, 1972 (CUSIP No. 912793 PA8).

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, Friday, February 18, 1972. Tenders will not be received at the Treasury Department, Washington. Each tender must be for a minimum of $10,000. Tenders over $10,000 must be in multiples of $5,000. In the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e.g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

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

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

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Only those submitting competitive tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on February 24, 1972, in cash or other immediately available funds or in a like face amount of Treasury bills maturing February 24, 1972. 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.

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The Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE W04 2041

NOTE TO CORRESPONDENTS: February 11, 1972

Attached is a Treasury Press Release issued today on the results of recent trade negotiations between the United States and the European Community. The announcement was made simultaneously in Washington and Brussels at 9:00 a.m., Washington time. Supporting material is included.

In answer to requests, we have also attached the previously-released Joint Statement on International Economic Relations issued jointly by the United States and Japan on Wednesday, February 9. Technical information on the results of the recent trade negotiations between the United States and Japan, released with the Joint Statement, is also attached.

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Attachments

C-251

FOR RELEASE AT 9 AM EST Friday, Feb. 11, 1972

Secretary of the Treasury John B. Connally said today,"The new agreement announced this morning between the United States and the European Community is a step forward in the effort to assure fair trade practices, an effort that began with President Nixon's announcement of last Aug. 15.

"The Agreement reflects the diligence and effective effort of many in the Government, but I wish to pay special tribute to the efforts of Ambassador William D. Eberle, the President's Special Representative for Trade Negotiations, who carried the prime responsibility for the negotiation in its latter stages."

A declaration between the United States and the European Community states their agreement to initiate and support a comprehensive review of international economic relations including all elements of trade as well as a commitment to continue solving problems in 1972 in the GATT. The declaration is attached for your information.

As a beginning in solving trade problems and opening markets for expanding trade, certain short-term measures were also agreed to.

The United States informed the European Community that it is the intent of its domestic farm programs to add to stocks 10 percent of its production of grains in the 1971/72 crop year. For the 1972/73 crop year these programs provide measures intended to bring about the withdrawal of 18 million acres from production of feedgrains and 8 million acres from production of wheat.

The European Community will add 1.5 million metric tons to normal carryover stocks of wheat which had previously been estimated to total 2.4 million metric tons. For 1972/73 the Community is also prepared to make an effort in stocks in the area of grains. The amount of the stocks will be determined by the situation of the market, which will be the subject of discussions to take place at the appropriate time. The Community will until the end of the 1971/72 crop year operate its system of export payments on grains so as not to divert trade in its favor.

The European Community intends to insure that the eventual common market tax system for manufactured tobacco will be neutral, will enable broader competition, and will be reasonable and balanced for all interests concerned. The Community is ready to have discussions with the United States at an appropriate time on the question of fiscal harmonization on tobacco products. The Community announced that for the coming two years the duty applicable to imports of fresh summer oranges from the United States and other non-preferential suppliers will be reduced from 15 percent to 5 percent during the major part of the U.S. export season (June 1 - September 30). The duty applicable to non-preferential imports of grapefruit will be reduced from 6 percent to 4 percent for the period April 1, 1972 - December 31, 1973. The accession treaty which the European Community recently concluded with Denmark, Ireland, Norway, and the United Kingdom is being submitted to the GATT for examination according to the procedures of that Agreement. The Community has stated that it plans to furnish to the GATT, in good time, the documentation required to permit the beginning of Article XXIV:6 tariff renegotiations immediately after completion of the ratification procedures which, according to the terms of the treaty, is envisaged for December 31, 1972 at the latest.

This report on the European trade settlement was referred to in the background material submitted with my letter of February 9th to the Speaker of the House on the proposed modification of the par value of the dollar.

* * *

Declaration

Within the framework of their negotiations, the United States and the European Community have agreed to communicate the following Declaration to the Director General of the GATT for transmittal to the contracting parties. Other contracting parties are invited to associate themselves with this Declaration to the extent and at the moment they would deem appropriate.

* * *

The United States and the Community recognize the need for proceeding with a comprehensive review of international economic relations with a view to negotiating improvements in the light of structural changes which have taken place in recent years. The review shall cover *inter alia* all elements of trade, including measures which impede or distort agricultural, raw material and industrial trade. Special attention shall be given to the problems of developing countries.

* * *

The United States and the Community undertake to initiate and actively support multilateral and comprehensive negotiations in the framework of GATT beginning in 1973 (subject to such internal authorization as may be required) with a view to the expansion and the ever greater liberalization of world trade and improvement in the standard of living of the people of the world, aims which can be achieved _inter alia_ through the progressive dismantling of obstacles to trade and the improvement of the international framework for the conduct of world trade. The Community states that in appropriate cases the conclusion of international commodity agreements are also one of the means to achieve these aims. The United States states that such agreements do not offer a useful approach to the achievement of these aims.

* * *

The negotiations shall be conducted on the basis of mutual advantage and mutual commitment with overall reciprocity, and shall cover agricultural as well as industrial trade. The negotiations should involve active participation of as many countries as possible.

The United States and the Community agree to initiate and support in 1972 an analysis and evaluation in the GATT of alternative techniques and modalities for multilateral negotiation of long term problems affecting all elements of world trade.

* * *

The United States and the Community will seek to utilize every opportunity in the GATT for the settlement of particular trade problems, the removal of which would lessen current frictions, and will strive for further progress with respect to those matters now being discussed in the GATT Committee on trade in Industrial Products and the GATT Agricultural Committee. They agree that progress in GATT in solving specific problems in 1972 could facilitate the way in the GATT for a new major initiative for dealing with longer term trade problems.

Draft Letter From EC Representative to U.S. Representative

Mr. Chairman,

I herewith wish to confirm that in the course of the negotiations between the European Community and the United States, the European Community stated its intention to take the following measures:

1. Stockpiling of grains

During the crop year 1971/72, the Community will add 1.5 million tons to its normal carryover stocks of wheat hitherto anticipated to be 2.4 million tons.

For the crop year 1972/73, the Community is equally ready to make a stockpiling effort in the area of grains.

The amount of the stockpiling will be determined by the situation of the market, which will be the subject of discussions to take place at an opportune time.

2. Export restitutions

In the practical implementation of its export restitutions systems for grains until the end of the 1971/72 crop year, while conforming to the rules of the common agricultural policy, the Community will take care that the system does not result in trade diversions in favor of the Community.

3. Oranges and grapefruit

The duty applicable to Community imports of sweet oranges (ex 08.02 A) from the United States and other MFN suppliers in the periods June 1 to September 30, 1972 and June 1 to September 30, 1973 will be 5 percent *ad valorem*.

The duty applicable to Community imports of fresh grapefruit (08.02 D) from the United States and other MFN suppliers during the period from April 1, 1972 through December 31, 1973 will be 4 percent *ad valorem*.

4. Tobacco

The Community declares that in establishing the fiscal system necessary for the institution of a common market for manufactured tobacco it is its intention to ensure that the fiscal imposition to

be introduced be neutral, that it conform with the necessity of broader competition and that it be reasonable and balanced for all interests concerned.

The Community is ready to have discussions with the United States at an appropriate time on the question of fiscal harmonization on tobacco products.

5. Accession Treaty

The Accession Treaty will be notified to GATT immediately upon signature. Examination of the Accession Treaty will be undertaken in the GATT according to Article XXIV procedures as soon as the texts have been transmitted to the CONTRACTING PARTIES. This examination will, as is the custom, involve all provisions of these agreements which are relevant to the competence of the GATT. The Community plans to furnish to the GATT, in good time, the documentation required to permit the beginning of Article XXIV:6 tariff renegotiations immediately after completion of the ratification procedures which, according to the provisions of the Treaty, is envisaged for the 31st December 1972 at the latest.

The European Community recognizes that the United States accepts the principle of reciprocity and mutual advantage as a basis for solving pending issues in their economic relations and will approach problems raised by the United States in this spirit.

/Complimentary close/

2/10/72

Draft Letter from U.S. Representative to EC Representative

Mr. Chairman:

I herewith wish to confirm that in the course of the negotiations between the United States and the European Community the United States made known that it is the intent of its domestic farm programs to add to stocks 10 percent of its production of grains (estimated to be 231 million metric tons) in the crop year 1971/72. Moreover the United States made known that it is the intent of its farm programs to bring about the additional withdrawal of 18 million acres from the production of feedgrains and of 8 million acres from the production of wheat for the 1972/73 crop year.

The United States takes note of the Community's statement regarding the fiscal harmonization for manufactured tobacco and declares its intention to avail itself, as appropriate, of the opportunity offered by the Community to discuss this subject, without prejudice to other avenues of pursuing its interests.

The United States recognizes that the European Community accepts the principle of reciprocity and mutual advantage as a basis for solving pending issues in their economic relations and will approach problems raised by the European Community in this spirit.

/Complimentary Close/

2/10/72

European Community Concessions

Grain Storage

The European Community will add 1.5 million metric tons of wheat to its normal carryover stocks. This is in addition to 2.4 million tons already earmarked for storage. For the crop year 1972/73, the Community will make a further stockpiling effort in the area of grains. The amount of the stockpiling will be determined by the situation of the market at the time, and will be the subject of discussions as needed.

In 1971, European grain crops were exceptionally heavy. European grain supplies would have a depressing impact upon the international market situation if entirely moved into use or exports during the remaining months of the current season. The Community decision to add to stocks will help to balance supply and demand. Also, in view of the actions already being taken by other major grain trading countries to prevent market instability both in the current season and for the year ahead, the Community undertakings are consistent with its responsibilities in the international grain trade. Since surplus amounts of EC wheat are regularly used for animal feed in replacement of feed grains, the Community storage measures can affect the trade situation for both wheat and feed grains.

In the 1970/71 season, the Community imported almost 9.0 million metric tons of wheat and feed grains from the U.S., valued at approximately $500,000,000. The EC normally takes 15 to 20 percent of total world grain exports and, in addition, is itself a major exporter of soft wheat, wheat flour, and feed grains.

Grain Prices

The Community has agreed that in the practical implementation of its export restitution systems for grains for the balance of the current 1971/72 crop year, it will take care that the system does not result in trade diversion in favor of the Community.

This undertaking recognizes that excessively high restitutions can disrupt trade patterns and cause grain exporting countries such as the United States to lose traditional market outlets. EC corn and barley exports compete with corn and barley from the U.S. mainly in other markets of Western Europe, such as Spain and the United Kingdom. They are also a potential source of competition in Eastern Europe and developing markets elsewhere. Community wheat exports also compete in Western European markets such as the United Kingdom and are a potential source of competition in a large number of other traditional U.S. markets outside of Western Europe as well. The EC general export restitutions as of February 1972, are $46.00 per metric ton for wheat, $37.00 for barley, and $22.00 for corn.

Tobacco

The European Community declares that in establishing the fiscal system necessary for the institution of a common market for manufactured tobacco products, it is its intent to ensure that the fiscal imposition to be introduced be neutral, that it conform with the necessity of broader competition, and that it will be reasonable and balanced for all interests concerned. The Community is ready to have discussions with the United States at an appropriate time on the question of fiscal harmonization on tobacco products.

The EC common tax system is still in the initial stages of formulation. It is to be implemented in stages and be in effect by 1980, and will consist of some combination of specific and ad valorem elements, for example, the first stage formula adopted by Germany last July contains a 25 percent ad valorem element and a 75 percent specific element. To the extent that there is an ad valorem element in the final formula, the retail price of cigarettes manufactured from high quality U.S. type tobacco will be increased relative to the retail price of cigarettes manufactured from less expensive tobaccos available from EC member states and associates. Therefore, the higher the ad valorem element, the greater the manufacturer's incentive to shift away from using high quality U.S. leaf and toward cheaper tobaccos grown elsewhere in the world.

Nearly one-third of U.S. tobacco exports now goes to the EC. This proportion would approach 60 percent in an enlarged Community since it would then include both our best customers, the UK and Germany.

U.S. tobacco exports to the EC plus the four applicants were valued at $328 million in FY 1970 and $327 million in FY 1971.

Citrus Fruit

The European Community has agreed that it will reduce the common external tariff on fresh oranges from 15 percent ad valorem to 5 percent during the months of June through September in 1972 and again in 1973. The common external tariff is the schedule of customs duties on imports from the United States and other countries that do not benefit from special preferential rates of duty. Preferential rates apply to oranges imported from Mediterranean countries such as Spain, Israel, Morocco, and Tunisia.

The European Community also agreed that beginning April 1, 1972, and continuing until the end of 1973, the common external tariff on grapefruit will be reduced from 6 percent ad valorem to 4 percent. A preferential rate applies to grapefruit imported from Israel.

The effect of these changes is to reduce the trade advantage that lower preferential duties give to imports from the Mediterranean area and to expand the market for oranges and grapefruit in the EC. Exports of U.S. oranges to the EC in FY 1971 totalled over $8 million. Exports of grapefruit to the EC totalled over $2 million in FY 1971.

Joint Statement
on
International Economic Relations

February 9, 1972

Japan and the United States today made the following declaration and agreed to communicate the declaration to the Director General of the GATT for transmittal to the contracting parties. Other contracting parties are invited to associate themselves with this declaration to the extent and at the time which they would deem appropriate.

* * * * * *

Japan and the United States recognize the need for proceeding with a comprehensive review of international economic relations with a view to negotiating improvements in it in the light of structural changes which have taken place in recent years. The review shall cover *inter alia* all elements of trade, including measures which impede or distort agricultural, raw material and industrial trade. Special attention shall be given to the problems of developing countries.

Japan and the United States will seek to utilize every opportunity in the GATT for the settlement of trade problems, the removal of which would lessen current trade distortions, and will strive for further progress with respect to those matters now being discussed in the GATT Committee on Trade in Industrial Products and the GATT Agricultural Committee. Japan and the United States agree that progress in GATT in solving some problems in 1972 could facilitate the way in the GATT for a new major initiative for dealing with longer term trade problems. To this end, they also agree in 1972 to analyze and evaluate in the GATT alternative techniques and modalities for multilateral negotiation of long term problems affecting all elements of world trade.

Japan and the United States undertake to initiate and actively support multilateral and comprehensive negotiations in the framework of GATT beginning in 1973 (subject to such internal authorization as may be required) with a view to the expansion and liberalization of world trade, improvement in the international framework for the conduct of commercial relations, and improvements in the standard of living of the people of the world. These multilateral negotiations shall be conducted on the basis of mutual advantage and mutual commitment with overall reciprocity, and shall cover agricultural as well as industrial trade. The negotiations should involve active participation of as many countries as possible.

JAPAN

Agricultural Products

Soybeans and Soybean Products

Japan will eliminate its 2.40 yen per kilogram duty (ad valorem equivalent of 5.6 percent) on soybeans April 1, 1972. This tariff elimination is of major importance, since soybeans are the largest single U.S. export to Japan. In 1970, Japan imported $366 million of soybeans, of which the United States supplied $330 million. It is expected that the duty elimination will increase U.S. soybean exports to Japan.

Japan will reduce its duty on soybean oil by approximately 10 percent -- from 28 yen per kilogram to 25 yen per kilogram for oil of an acid value not exceeding 0.6 and from 20 yen per kilogram to 17 yen per kilogram for oil of an acid value exceeding 0.6. Japan's imports of soybean oil in 1970 were valued at $1.4 million, of which $1.2 million was supplied by the United States. Japan will also eliminate its 5 percent duty on soybean meal for human consumption. These actions will have limited effect on increasing U.S. exports. The major export interest of the United States in soybean products is soybean meal for animal feed which already enters Japan free of duty.

Citrus Products

Japan will increase the size of its import quotas for fresh oranges, and orange and grapefruit juice in Japan Fiscal Year (JFY) 1972 (April 1, 1972 - March 31, 1973). The orange quota will be increased from 7,800 MT* to 12,000 MT. The United States is the major supplier of Japan's fresh orange imports. In calendar year 1970 the United States shipped 4,044 metric tons worth $1.4 million out of a total of 4,313 metric tons imported by Japan. Most of the new quota is likely to be filled from U.S. sources.

Japan will establish a 2,500 metric ton quota for orange juice (single-strength; or 500 metric tons of concentrate on a 5 to 1 concentrate basis), a 1,500 metric ton quota for certain other juices (primarily grapefruit juice) and maintain a 500 metric ton quota for orange and pineapple juice for hotel use, in JFY 1972, for a total of 4,500 metric tons (single-strength basis). The totals were 3,000 metric tons in JFY 1970 and 1,500 metric tons in JFY 1971. The United States is the major supplier of these juices ($543,000 or 1,870 MT out of $634,000 total imports in 1970).

Livestock and Meat

Japan will establish a 5,000 head duty-free tariff rate quota for imports of feeder cattle by producer organizations for JFY 1972. Japan had increased the duty on feeder cattle

*MT=metric ton=2,204.6 lbs.

from free to about 100 percent ad valorem equivalent when the import quota was removed on October 1, 1971.

The current 500 metric tons quota for high quality beef destined for hotel use will be increased by Japan to 1,000 metric tons in JFY 1972. U.S. high quality beef exports to Japan were 435 MT worth $1.4 million in 1970.

Other Agricultural Products

Japan will eliminate its 2.5 percent duty on inedible tallow by April 1, 1972. Japan imported $53.4 million worth of inedible tallow in calendar year 1970 of which $39.3 million were supplied by the United States.

Also of benefit to U.S. exporters will be a reduction in the duty on turkey meat from 15 percent to 10 percent. Japan will implement this action on April 1, 1972. Japan imported $480,000 worth of turkey meat from the United States in 1970 out of total turkey meat imports of $500,000.

Japan will remove its import quota restriction on tomato puree and tomato paste on April 1, 1972. Of total Japanese imports of $929,000 in 1970, the United States supplied only $42,000 worth of these products.

Japan will reduce its tariffs by an average of 10 percent on approximately 10 other agricultural products of interest to the United States (Annex B). The United States exported $6 million of these products to Japan in 1970.

Industrial Products and Administrative Nontariff Barriers to Trade

Import Quotas

Japan removed on February 1, 1972, without an increase in duty, its import quota restrictions on light aircraft (under 20,000 lbs.) and parts, computer peripheral equipment except memory and terminal devices (see Annex A), radar apparatus for aircraft (for ground and airborne use), radio navigational aid apparatus for aircraft, and radio remote control apparatus for aircraft (for ground and airborne use). U.S. exports to Japan of these items in 1970 were valued at approximately $66 million. Japan will also remove on the same date its import quota restrictions on light and heavy oil and sulfur, but increase its duties on these items. Japan imported $21.7 million of light and heavy oil from the United States in 1970. In response to a U.S. request that Japan establish a plan and timetable for the elimination of its remaining quantitative import restrictions on agricultural and industrial items inconsistent with Japan's GATT obligations, Japan stated it would make its best efforts to do so.

A U.S. technical team will visit Japan later this year to discuss possible ways by which Japan could ease and eventually remove its import quota restrictions on computers, computer memory and terminal devices and computer parts.

Tariffs

Japan will reduce by 10 percent its tariffs on computers, computer peripheral equipment, machine tools, color photographic film and X-ray film. These items together accounted for about $215 million in Japan's imports from the United States in 1970. Japan also stated its intention to reduce its tariffs by an average of about 10 percent on other industrial products covering about $60 million in its 1970 imports from the United States (see Annex B). The items of significance to the United States include organic surface active agents; image projectors and parts; air conditioners; refrigerators; cosmetics; photo enlargers, reducers and apparatus for developing and printing; and gramaphones and record players. Japan will also reduce its tariff on automobiles from 10 percent to 8 percent.

Automobile Excise Tax

Japan will reduce on April 1, 1972, its internal excise tax on large-sized and medium-sized cars -- now 40 percent and 30 percent, respectively -- to 20 percent. This action will largely remove the de facto discrimination which subjects the larger U.S. automobiles to a disproportionately higher tax rate. The current 15 percent rate for small cars will remain. No U.S.-produced small cars fall into the 15 percent category because they do not meet the criteria, which are based on cylinder capacity, wheel base, and width limitations, for the lower rate. Japan imported $23 million of automobiles from the United States in 1970.

Automatic Import Quota System (AIQ)

Japan reduced the number of items under its AIQ system to zero in February 1972. The AIQ system required that certain products freed from import quota control (IQ system) would still undergo "automatic" government licensing. This system provided an opportunity for Japanese Government officials to use "administrative guidance" against imports. The number of items under the AIQ system had been reduced earlier from 253 in January 1969 to 11 in October 1971. Three items, including heavy hydrogen, will continue to be controlled by other means.

Importation, Wholesale and Service Facilities in Japan

Japan will approve, in principle, the establishment of wholly-owned foreign sales subsidiaries which engage in importation and wholesale activities (warehousing sales to

wholesale and retail outlets) and service facilities in Japan, except for computers and related activities and petroleum distribution. Japan will also, in principle, automatically approve the receiving and remittance of funds by foreign branches engaged in these activities. The liberalization of Japanese restrictions in this area will be of considerable help in promoting the sale and distribution of American products in Japan. Japan noted that it does not consider the cutting of film and blending or mixing of cosmetics as wholesale activities but as manufacturing activities.

Standard Method of Settlement Requirement

Payments for all imports into Japan must be made within 120 days of customs clearance and cannot be prepaid, unless an exception is granted by the Japanese Ministry of International Trade and Industry (MITI). Japan will henceforth approve individual applications for consignment or prepayment contracts on a case-by-case basis. This action will enable U.S. suppliers to conclude consignment sales contracts for such purposes as floor display, stock or demonstration.

Annex A

COMPUTER PERIPHERAL EQUIPMENT

To be liberalized but their terminal devices will not be liberalized:

Input Machines, Output Machines and Input/Output Machines

- Card Reader
- Card Punch
- Line Printer
- Paper Tape Reader
- Paper Tape Punch
- Paper Tape Reader Punch
- Optical Character Reader
- Optical Mark Reader
- Magnetic Ink Character Reader
- Character Display
- Graphic Display
- Audio Response Unit
- Plotter
- Computer Input Micro Filmer
- Computer Output Micro Filmer
- Etc.

Control Units

- Input-Output Control Unit
- Communication Control Unit
- Magnetic Disc Control Unit
- Magnetic Drum Control Unit
- Magnetic Tape Converter
- Magnetic Tape Printer

Not to be liberalized:

Memory Equipment

- Magnetic Disc Memory Equipment
- Magnetic Disc Pack Memory Equipment
- Magnetic Tape Equipment
- Magnetic Drum Equipment
- Etc.

NOTE: Terminal devices are such input machines, output machines, input-output machines and control units as are connected to the main body of computers by telecommunication circuits.

Annex B

Tariff Reduction and Elimination Scheduled on April 1, 1972 (Illustrative List)

Tariff Item	Description of Products	Rates of Duty Presently in Force	Proposed Rates of
Ex 01.02	Feeder cattle	45,000yen/head	T.Q. Primery r free Secondary 45,000yen
Ex 02.02	Turkeys, fresh, chilled or frozen	15%	10%
Ex 07.01	Onions, fresh or chilled Value for customs duty of:	10%	
	Not more than 51 yen/kg		10%
	More than 51 yen/kg but not more than 56.1 yen/kg		56.1 yen/ minus value for customs d
	More than 56.1 yen/kg		free
09.01-1-(2)	Coffee (roasted)	35%	30%
09.02-1-(1)	Black tea: put up for sale by retail	35%	30%
09.02-1-(3)	Other black tea	20%	5%
10.02	Rye	15%	5%
12.01-1	Soybeans	2.4 yen/kg	free
12.01-3	Rapeseeds and mustard seeds	4 yen/kg	free
12.01-7	Safflower seeds	2.5%	free
12.07-2	Insect flower	20%	T.Q. Primary r free Secondary 20%

15.02-1	Beef tallow	2.5%	free
15.02-2	Sheep tallow, goat tallow, etc.	2.5%	free
15.07-1-(1)	Soyabean oil of an acid value exceeding 0.6	28 yen/kg	17 yen/kg
15.07-1-(2)	Soybean oil of an acid value not exceeding 0.6	28 yen/kg	25 yen/kg
15.07-2-(1)	Ground-nut oil of an acid value exceeding 0.6	20 yen/kg	17 yen/kg
15.01-2-(2)	Ground-nut oil of an acid value not exceeding 0.6	28 yen/kg	25 yen/kg
15.07-3-(1)	Rapeseed oil and mustard seed oil of an acid value exceeding 0.6	20 yen/kg	17 yen/kg
15.07-3-(2)	Rapeseed oil and mustard seed oil of an acid value not exceeding 0.6	28 yen/kg	25 yen/kg
15.07-4-(1)	Sunflower seed oil of an acid value exceeding 0.6	20 yen/kg	17 yen/kg
15.07-4-(2)	Sunflower seed oil of an acid value not exceeding 0.6	28 yen/kg	25 yen/kg
Ex 15.07-5	Cotton seed oil of an acid value exceeding 0.6	20 yen/kg	17 yen/kg
15.07-14-(1)	Other fixed vegetable oils of an acid value exceeding 0.6	20 yen/kg	17 yen/kg
15.07-14-(2)	Other fixed vegetable oils of an acid value not exceeding 0.6	28 yen/kg	25 yen/kg
21.03-1	Mustard flour and prepared mustard (put up for sale by retail)	30%	25%

21.03-2	Mustard flour and prepared mustard (other)	25%	20%
22.03	Beer made from malt	20%	10 yen/
Ex 22.05-2	Wine of fresh grapes and grape must with fermentation arrested by the addition of alcohol (in containers of capacity more than 150 liters, excluding sparkling wines)	400 yen/l	200 yen
22.09-1-(1)A	Whiskey (of an alcoholic strength of 50° or higher, excluding those in containers of a capacity less than 2 liters)	660 yen/l	590 yen
(1)B	Other whisky	550 yen/l	490 yen
22.09-1-(2)A	Brandy (of an alcoholic strength of 50° or higher, excluding those in containers of a capacity less than 2 liters)	780 yen/l	550 yen
23.04-1	Oil-cake and other residues resulting from the extraction of soya bean oil	5%	free
Ex 28.04-4	Phosphorus	7.5%	3.75%
33.06-1	Perfumed water including eau de cologne and the like	25%	15%
33.06-3	Perfumed hair oil, cream, pomade, rouges and other preparations of oils, fats or waxes	15% - 25%	15%
Ex 33.06-5	Manicure preparations, shaving preparations and incenses	20%	15%
Ex 33.06-5	Other perfumery, cosmetics and toilet preparations	15% - 17.5%	15%

34.02-1	Organic surface-active agents and surface-active preparations	17.5%	10%
37.01-1	X-ray plates and film in the flat	20%	18%
Ex 37.02-1-(2)	Cinematographic film in rolls for X-ray	15%	13.5%
37.02-2-(1)	X-ray film in rolls	20%	18%
37.01-2-(1)	Color plates and color film in the flat	23%	20%
37.02-1-(1)A	Cinematographic color film in rolls, not more than 30 mm in width, reversal	26%	23%
37.02-1-(1)B	Cinematographic color film in rolls, other	23%	20%
37.02-2-(2)	Color film in rolls, other	26%	23%
Ex 39.03-2-(4)	Hamcasings and similar products, in tubes of a flattened width not less than 90 mm	10%	free
Ex 76.03	Wrought plates, sheets and strip of aluminum (for use as roof sheets of containers for foreign trade purposes, not less than 2.3 m in width)	18%	free
77.01-1	Unwrought magnesium of:		
(1)	not more than 278.26 yen/kg	not more than 286.95 yen/kg, 15%; more than 286.95yen/kg but not more than 330 yen /kg	15%
(2)	More than 278. 26 yen/kg but not more than 320 yen/kg	330 yen/kg minus value for customs duty;	32 yen minus value for customs duty
(3)	More than 320 yen/kg	more than 330 yen/kg, free	free
84.12-1	Air conditioning machines (for motor vehicles)	15%	10%

84.12-2	Air conditioning machines (other)	15%	10%
84.15-1	Refrigerating cabinets, self-contained refrigerating units	7.5%	5%
84.41-1-(2)	Sewing machines, completed set or separated head (other than for domestic purposes)	7.5% - 12.5%	7.5%
84.45-1	Machine-tools whose function is to remove metal or metallic carbides	15%	13.5%
		12.5%	11%
		10%	9%
		7.5%	6.5%
Ex 84.52-1 (1)	Digital type electronic computers	15%	13.5%
Ex 84.53-1 84.51-1-(1) Ex 84.52-1-(1) Ex 84.53-1 84.53-2 Ex 84.54-1 Ex 85.22-1	Peripheral apparatus of digital type electronic Computers	25%	22.5%
84.59-7-(1)	Machinery and mechanical appliances not falling within any other items thereof	7.5% - 10%	7.5%
Ex 84.61	Taps, cocks, valves and similar appliances for pipes, boiler, tanks, vats and the like	7.5% - 10% 15% - 20%	7.5% 15 %
85.01-2-(2)	Electric motors (of a weight more than 500 kg)	10%	7.5%

85.01-4-(1)	Silicon rectifiers and silicon rectifying apparatus	10%	7.5%
85.06-1	Electro-mechanical domestic appliances, with self-contained electric motor:		
	(1) Fans	7.5%	5%
	(2) Vacuum cleaners, floor polishers, food mixers, etc.	7.5%	5%
85.06-2	Other electro-mechanical domestic appliances, with self-contained electric motor	7.5%	5%
85.07	Shavers and hair clippers, with self-contained electric motor	7.5%	5%
85.12	Electric instantaneous or storage water heaters and immersion heaters, electric hair dressing appliances, etc.	7.5%	5%
85.15-1	Radio-broadcast receivers (including chassis)	7.5%	5%
85.15-2	Television receivers (including chassis)	7.5%	5%
87.02-1	Motor vehicles for the transport of persons		
	(1) not more than 270 cm in wheel base	10%	8%
	(2) more than 270 cm but not more than 304.8 cm in wheel base	10%	8%

87.02-1	(3) More than 304.8 cm in wheel base	10%	8%
90.07-1-(2)	Cameras for photo-engraving, X-rays, copying documents etc.	15%	7.5
(3)	Other cameras	15%	7.5
90.07-2	Parts and accessories of cameras	15%	7.5
90.07-3	Photographic flashing apparatus	15%	7.5
90.08-1-(1)	Cinematographic projectors for film of a width not more than 20 mm	10%	5%
	Cinematographic cameras for film of a width not more than 20 mm	15%	7.5
(2)	Other cinematographic cameras, projectors, parts and accessories thereof	10%	5%
90.08-2	Cinematographic sound-recorders and sound reproducers; parts and accessories thereof	10%	5%
90.09-1	Image projectors; parts and accessories thereof	10%	5%
90.09-2	Photographic enlargers and reducers; parts and accessories thereof	10%	5%
90.10-1	Apparatus and equipment, photographic or cinematographic, of a kind used for developing, printing, etc.	10%	5%

90.10-2	Contact type photo-copying apparatus, etc.	10%	5%
90.17	Medical, dental, surgical and veterinary instruments and appliances	7.5% - 10%	7.5%
90.18	Mechano-therapy appliances; massage apparatus, psychological aptitude testing apparatus; artificial respiration, ozone therapy, etc.	7.5% - 10%	7.5%
90.28-1	Electrical measuring, checking instruments and apparatus	7.5% - 15%	7.5%
91.01-1	Wrist-watches etc. (not more than 6,000 yen per piece in value for customs duty)	15%	7.5%
91.01-2	Wrist-watches etc. (other)	20%	10%
92.11	Gramophones and record players	7.5%	5%

The Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE WO4-2041

Remarks of Jack F. Bennett
Deputy Under Secretary for Monetary Affairs
U. S. Treasury Department
to the
Conference on International Money and Capital
February 9, 1972
London, England

A VIEW FROM THE UNITED STATES TREASURY

Mr. Chairman:

The last time I made a public speech in London I predicted that the U. S. dollar would not be devalued .... for ten years. Fortunately, that was in 1960. Emboldened by that success, I should like to present this morning another prediction: that the central currency values agreed on December 18th will last far beyond the alternative dates being considered by 99.99 percent of those who are these days considering possible current foreign exchange transactions.

I make this prediction, not because of any conviction that the new exchange rates are necessarily "museum pieces" which will last more than ten years, but rather from a realization that those rates were the result of a hard fought compromise. While the U.S. urged the desirability of greater revaluations, the Europeans and Japanese felt strongly that more revaluation was not needed and that they were fully prepared to defend the new rates by intervention in the foreign exchange markets.

That these governments are still now strongly of this same view was brought home to me in Paris last week in the meetings of the Working Party-3 and Economic Policy Committee of the OECD. I realize, of course, that some of the slight instability in the exchange markets last week was ascribed to reports emanating from those meetings. The suggestion has even been made that the greatest contribution we could make to the stability of the exchange markets would be not to hold any more OECD meetings. But, in fact, the reports from Paris of probably short-range perverse effects of the December agreement on the U. S. trade balance and of the possibility of a current account

deficit for the United States in the calendar year 1972 are all old stuff. These were the explicit bases for the various discussions in the OECD and the G-10 last fall and were taken into account in the negotiations of the new exchange rates, and I gather that the expectations of "J-curves" after a devaluation are a commonplace in the London newspapers.

In the negotiations last fall, we in the U.S. Government argued for larger revaluations, but we all recognize that no one can be certain of his predictions in this area when they are necessarily based on unprovable assumptions about prospective import and export elasticities. Only time, considerable time, can tell who was right and whether December 18, 1971 rates will be appropriate in all cases for 1974.

Nonetheless, in the Paris meetings and elsewhere, some have been urging the United States to impose stringent new foreign exchange controls on all forms of capital movements. I can assure you these are not being contemplated. At the Smithsonian the U.S. undertook no obligation to institute such measures. We consider them neither necessary nor desirable. We have made clear at all times that we do not consider a balance maintained by controls to be an appropriate and productive balance and that our ultimate objective is to be rid of those controls we still have. On the other hand, while the U.S. does not consider itself tied to the mast of these new exchange rates, neither have we wished to rock the boat and we have made literally no change in our existing controls since December 18th. We are now, however, well into the new year and we cannot appropriately long delay announcement of the details of our control program for the calendar year 1972. We certainly hope to be able to move in the right direction. Yet, those of you gainfully employed in the Euro-dollar business probably have little reason to fear that in the near future the world will be either a place of such stringent controls or, on the other hand, a place of such total freedom from controls that there will not continue to be many who prefer and are able to do their investing and their borrowing through London's efficient Euro-dollar facilities.

Since December 18 there have been three major developments often discussed in relation to the durability of the Smithsonian agreement: the absence of the expected large reflow of funds to the United States, the new estimates of recent slower growth in the United States, and the newly announced large budget deficits in the U.S. Government. There has, indeed, been widespread surprise that a large and sudden reflow of funds to the United States did not occur in the days after December 18, though I do recall that in the press conference on December 18, when the new agreement was announced, my boss in Washington, Paul Volcker, expressed serious doubt whether there would be any such sudden flow. Now, after the fact, I gather from talks with European authorities, international bankers, and corporate finance men, that there are three principal hunches why the big flow didn't take place. One is the impact of the wider margins and the possibility clearly recognized by many in the early days after December 18 that one who waited might be able to buy a dollar as much as 4 percent cheaper within the new permissible range of fluctuations. In our view, this experience is already substantiating our judgment that wider margins were a beneficial innovation, and I was pleased in Paris to gain the impression that others have been coming to share our viewpoint. A second reason for the non-event has been interest rate differentials. Later this morning I would like to mention some of the reasons which lead me to expect these differentials to narrow over the coming months. At the moment I should perhaps also note that to some extent in January the low rates of short term interest rates in the United States may have been in part the result rather than the cause of the missing reflow since market and Federal Reserve plans may have been based on expectations that were not borne out as to the amount of short-term U.S. Treasury bills which would be thrown on the market as a result of reflows.

Finally, it seems clear that some who chose not to unwind their unusual leads and lags were motivated by the thought that the new exchange rate bands might not be preserved and that after a little while it would be possible to buy dollars more cheaply than the announced bands would permit. I mentioned earlier some of my reasons

for thinking this judgment was misplaced. I should add that to any extent the judgment was based on the thought that the U.S. Congress might decide to legislate a price even higher than $38 per ounce of gold, there has been a monumental miscalculation. The Administration's gold bill is scheduled to be submitted to the Congress today. It will be a simple bill calling for a change in the par value of the dollar to $38. We anticipate it will be passed promptly after the Congress returns from its mid-February recess, and while there have been a few voices in the legislature opposing the raising of the price of gold at all, there has not been to my knowledge a single voice suggesting any consideration of a greater change than that proposed by the U.S. Administration.

While we speculate on these various reasons why there has not been a large reflow to the United States, we should not lose sight of the fact that our preliminary estimates indicate that we have had a sizable reflow, perhaps in the order of one and one-half billion dollars since December 18. About a half of this has been in the form of an actual official settlements surplus for the U.S., reflected in a reduction of foreign official holdings of U.S. Treasury securities. The other half has offset our probably continuing underlying basic payments deficit. Some of this movement has probably been the result of short-term capital movement decisions but a part has been the result of a quite noticeable flow of European money into new portfolio investment in U.S. securities. In view of the prospects for the U.S. economy, we anticipate this flow will continue to grow.

Possibly this overall gradual orderly reflow into the United States will thus continue and be the best of all possible types, avoiding the instability of sudden massive movements, though I certainly do not wish to be quoted as guaranteeing that some large short-term flows will not develop during the coming months.

The second and third developments since December 18, the reports of slower growth and the large budget deficits, are in large measure just opposite sides of the same coin. The new estimates relate to downward revisions in the rates for growth of the U.S. economy in the second and third quarters of 1971.

These estimates forced substantial downward revisions in the tax revenue estimates for the first half of 1972 and these declines in revenue have been the largest contributors to the new estimate of a $39 billion deficit in the fiscal year ending in June. To some extent, however, the new enlarged deficit is the conscious result of a planned acceleration and expansion of spending plans in the first half of the year in the light of the less buoyant growth which had been revealed. Obviously, this deficit, and the smaller one to follow in the fiscal year 1973, will require the U. S. Treasury to expand its borrowing activity. This prospect together with recent and possible future reductions in European interest rates will probably reduce markedly the disparity between interest rates on the two sides of the Atlantic. Yet we are confident we can finance the U.S. budget deficit with newly issued Treasury securities and without extreme effect on the U.S. interest rate structure. This confidence arises in part from the high levels of liquidity now held by U.S. corporations and the high level of savings of U.S. citizens. The confidence also arises in part from a fact which may be less widely recognized, that is, the decline in the last two years in the holdings of U.S. Treasury securities by the U.S. public. In fact, if there were no change in the coming months in the holdings of U.S. Treasury securities by foreign authorities, it has been estimated that at the end of the current fiscal year with its $39 billion deficit the U. S. public would hold fewer U.S. Treasury securities than it held at the beginning of 1971. The explanation of this fact is, of course, the extent to which foreign authorities have been buying U.S. securities. As a bond salesman, I should perhaps rejoice in their buying interest, but unfortunately many of those securities were purchased at times when we were urging the foreign authorities not to intervene in the market to prop up the foreign currency price of our dollars and of our Treasury securities.

Final plans have not yet been made for the full financing schedule for 1972. We have announced that we expect to increase our outstanding obligations by about $4-1/2 billion between now and the end of April. In this process, we shall have to balance

short and long-term considerations. On the one hand, there is the desire to issue long-term securities for housekeeping reasons and in recognition of the fact that the average maturity of outstanding U.S. debt is now down to the historical low of 3 years and 4 months. On the other hand, we are conscious of the need to avoid any disruption of housing and investment finance, and we are conscious that the short-term market has at times in the past year been somewhat starved for short-term paper as a result of the many purchases by foreign authorities.

With this financing plan, and with continuation of the widespread price and wage controls of Phase II, the U. S. Administration is confident that it will fully achieve its objective of a rate of growth of the consumer price index of only 2 percent to 3 percent by the end of 1972. On this basis, the U.S. is likely to achieve a rate of inflation appreciably less than that of any other major industrialized country in 1972. This expectation is buttressed by the fact that it appears that, but for Canada, the U.S. would have achieved such a record already in 1971; and in the 4th quarter of 1971, when the U.S. real GNP was growing at a 6 percent rate, the GNP deflator actually grew by only 1-1/2 percent.

In this connection, I was asked insistently by reporters in Paris whether the U.S. Government was not now giving absolute priority to domestic concerns over international obligations. The simple answer is "no", but I think it would be more revealing to point out several things: firstly, that the U.S. Government at this time is certainly not disposed to follow policies which would project, say, 6-1/2 percent unemployment just to make some supposed contribution to international monetary stability; but, on the other hand, the Administration has not gone overboard in an attempt to inflate unemployment away. The Administration forecast is that it will achieve an unemployment level in the neighborhood of 5 percent by year-end without jeopardizing the objective of movement toward price stability. Five percent is definitely not the ultimate unemployment objective, but it is realized that further reduction below 5 percent will probably require structural measures rather than simple measures of demand management.

While implementation of the new economic budget and financing plans still lies before us, now that the short-term trade negotiations with Japan and the European Community seem to have been pretty much concluded, and now that the gold bill is being sent to Congress, it may be hoped that there will be more time in Washington for concentration on the objectives and means of longer term trade and international monetary reform. Preparations for these reform discussions require that thought be given not only to substantive but also to organizational matters. I noted with interest, for example, the Parliamentary exchange between the Prime Minister and Mr. Jenkins last week on the necessity of insuring that ways must be found to insure that the less developed countries are not excluded from full participation in future long-term reform deliberations.

In the trade field it is by now no secret that the U.S. as well as specific less developed countries are particularly concerned by the extreme levels of European Community agricultural protectionism that will still prevail even after the small changes recently negotiated and concerned, too, by the extreme discriminatory features of the Community policy on trade in industrial commodities. A statement much quoted in Washington these days is that in 1958 only 7 percent of the industrial imports of the thirteen major industrial countries were subject to preferential tariffs. When the new entrants are in the Community, 40 percent of such trade will be on preferential bases; and if comparable arrangements are made for the non-participating EFTA countries, the proportion could soon rise above 50 percent. Clearly the planned preparatory work in 1972, and the actual negotiations in 1973, will be of tremendous importance for the future of world trade.

In the monetary field we are aware of the many anxious European inquiries as to when convertibility will be restored to the U.S. dollar. Perhaps I should report that there have also been insistent inquiries in the United States as to why the dollar is today not convertible for Americans, not convertible that is in all circumstances into foreign investments of their choice. And you may have seen the accounts in the newspapers yesterday that a

number of U.S. legislators would like to know why the U.S. dollar is not convertible for American citizens into gold. Despite these two blemishes on the full convertibility of the U.S. dollar, I think it is appropriate to point out to European questioners that in all other respects the dollar is today fully convertible, and in particular I should note that there is full non-resident convertibility. As far as U.S. authorities are concerned, a private foreign holder of a dollar can spend it on anything he chooses, including gold bought on the market. Since I lived here in London in the pre-1959 days before that form of convertibility was accorded to sterling, I can remember with clarity the barriers to free movement of trade and investment which followed from the absence of convertibility in that really basic sense.

Naturally, I realize that when European officials talk of the need for convertibility these days, they are not speaking of the need to remove unilaterally imposed U.S. constraints on the use of the dollar but they are suggesting rather that the U.S. should undertake some form of commitment either to intervene in currency market trading to peg the value of the dollar in relation to other currencies or to engage in trades with other monetary authorities for exchanges among dollars, gold, and other gold related assets. To us this meaning of convertibility is not a subject suitable for consideration in a broad sense apart from all other interrelated aspects of international monetary reform. We hope discussions on this broad range of subjects can begin soon, but we also believe we should avoid attempts to conclude the discussions in an overly hasty fashion.

The U.S. Government will be approaching the discussions with one view which has already been made clear, that is that an ultimate objective should be the phasing of gold from its central role in the system. In the U.S. view if careful plans are not made gold could become a destabilizing element in the exchange system; and in any event, the time may be coming when gold has become too valuable to waste on money.

The U.S. will also be entering the reform discussions with the belief that the resulting monetary system should be one clearly capable of accommodating whatever differential rates of increase in productivity and in inflation may develop among various nations over the coming years. For this capacity we believe greater

flexibility will be needed than we had in practice in the world monetary system prior to August of last year. In this connection we anticipate that experience with the current wider margins will produce some useful evidence on the desirable degree and kinds of additional flexibility which may be needed in the future. But the U.S. Government retains an open mind on how increased flexibility can best be achieved. Perhaps it could be achieved by a return to the old Bretton Woods system but with a new determination to recognize and act on basic disequilibria very promptly. Or perhaps some new presumptive criteria are necessary to indicate when governments should allow the foreign exchange values of their currencies to change. Or perhaps, while Europe maintains fixed exchange rates and narrow margins among its currencies, there should be rather freely fluctuating rates between Europe and the dollar and between the yen and the dollar. All these alternatives and others will need careful consideration.

The prospective international negotiations over the next several years will have consequences for many years to come on the trading, banking, and investing endeavors in which you gentlemen are engaged. From your presence here today I take some confidence that you will continue to follow the negotiations carefully and will continue to keep pressure on the governments to do the job right.

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

ATTENTION: FINANCIAL EDITOR February 14, 1972

FOR RELEASE 6:30 P.M.,

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced that the tenders for two series of Treasury bills, one series to be an additional issue of the bills dated November 18, 1971, and the other series to be dated February 17, 1972, which were offered on February 8, 1972, were opened at the Federal Reserve Banks today. Tenders were invited for $2,400,000,000, or thereabouts, of 91-day bills and for $1,800,000,000, or thereabouts, of 182-day bills. The details of the two series are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	91-day Treasury bills maturing May 18, 1972		182-day Treasury bills maturing August 17, 1972	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv. Annual Rate
High	99.246	2.983%	98.231	3.499%
Low	99.214	3.109%	98.192	3.576%
Average	99.225	3.066% 1/	98.212	3.537% 1/

85% of the amount of 91-day bills bid for at the low price was accepted
56% of the amount of 182-day bills bid for at the low price was accepted

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	Applied For	Accepted
Boston	$ 22,995,000	$ 12,995,000	$ 25,555,000	$ 16,555,000
New York	3,171,710,000	2,078,860,000	2,604,735,000	1,600,455,000
Philadelphia	29,670,000	14,670,000	12,270,000	10,270,000
Cleveland	21,995,000	21,995,000	20,210,000	12,210,000
Richmond	10,115,000	10,115,000	2,660,000	2,660,000
Atlanta	41,265,000	32,265,000	30,305,000	14,805,000
Chicago	223,275,000	72,525,000	198,055,000	58,055,000
St. Louis	35,310,000	29,310,000	21,410,000	13,910,000
Minneapolis	33,355,000	25,355,000	37,830,000	27,340,000
Kansas City	21,475,000	21,045,000	19,050,000	14,050,000
Dallas	34,665,000	19,365,000	28,840,000	13,640,000
San Francisco	164,880,000	61,880,000	102,590,000	16,400,000
TOTALS	$3,810,710,000	$2,400,380,000 a/	$3,103,510,000	$1,800,350,000 b/

a/ Includes $188,130,000 noncompetitive tenders accepted at the average price of 99.225
b/ Includes $ 87,310,000 noncompetitive tenders accepted at the average price of 98.212
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 3.14 % for the 91-day bills, and 3.66% for the 182-day bills.

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

FOR IMMEDIATE RELEASE February 15, 1972

TREASURY'S MONTHLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $1,700,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing February 29, 1972, in the amount of $1,701,180,000, as follows:

275 -day bills (to maturity date) to be issued February 29, 1972, in the amount of $ 500,000,000, or thereabouts, representing an additional amount of bills dated November 30, 1971, and to mature November 30,1972 (CUSIP No.912793 NN2),originally issued in the amount of $1,200,655,000, the additional and original bills to be freely interchangeable.

365 -day bills, for $1,200,000,000, or thereabouts, to be dated February 29, 1972, and to mature February 28, 1973 (CUSIP No. 912793 PU4).

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

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Standard time, Tuesday, February 22, 1972. 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 365 days, the discount rate will be computed on a bank discount basis of 360 days, as is currently the practice on all issues of Treasury bills.) It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

(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 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 announcemen will be made by the Treasury Department of the amount and price range accepted bids. Only those submitting competitive tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidd will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on February 29, 1972, in cash or other immediately available funds or in a like face amount Treasury bills maturing February 29, 1972. Cash and exchange tenders will receive equal treatment. Cash adjustme 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 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, ard 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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The Department of the TREASURY

WASHINGTON, D.C. 20220 TELEPHONE W04-2041

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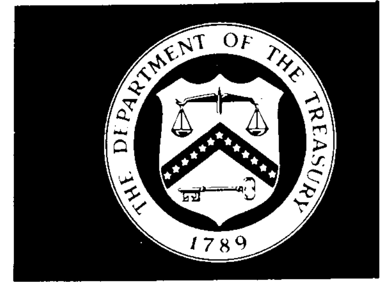

FOR RELEASE UPON DELIVERY

STATEMENT OF THE HONORABLE JOHN B. CONNALLY
SECRETARY OF THE TREASURY
BEFORE THE JOINT ECONOMIC COMMITTEE
WEDNESDAY, FEBRUARY 16, 1972, 10:00 A.M.

Mr. Chairman and Members of the Joint Economic Committee:

It is a pleasure to meet again with this distinguished Committee. These annual sessions on the President's Economic Report provide a valuable opportunity to examine the full range of our economic policies, both domestic and foreign. My prepared statement is relatively brief and concentrates on what seem to me to be the major issues.

This year we meet some six months after President Nixon's broad and courageous economic actions of last August. The new economic program announced at that time was designed to move the economy toward goals we all desire: more jobs, less inflation, higher productivity and a stronger international competitive position. While it has not all been smooth sailing since last August, I am confident we are on the right course and making good progress.

Your Committee is already familiar with the official economic projections for 1972. I need not dwell on the details. Gross National Product is expected to rise this year by about 9-1/2 percent, or by nearly $100 billion. Of this, real growth is expected to be roughly 6 percent while prices may rise by about 3-1/4 percent. These figures compare with 2.7 percent real growth and 4.6 percent inflation in 1971.

The official projections are realistic and attainable. They lie well within the consensus range of private forecasts. Recent reports show that confidence in these forecasts is growing. From all indications, this should be a year of strong economic expansion.

Fiscal and monetary policies are very much a part of the improved economic picture. Both are counted on to contribute importantly to the economic expansion. Given our present circumstances -- with unemployment still near 6 percent, and with inflationary pressures diminishing -- strongly stimulative policies are fully appropriate.

Calculated on a full employment basis, the fiscal stimulus translates into a budget deficit of some $8 billion in the current fiscal year, to be followed by approximate balance in fiscal 1973. What we actually expect of course are budget deficits of almost $39 billion this fiscal year and $25-1/2 billion next year. Sizable deficits are inevitable given the slack in the economy and the Administration's determination to eliminate it. Any attempt to force the budget into balance at this time would only force the economy further out of balance. I will not, however, pretend to be happy with deficits of this size. The sooner they are gone, the better.

Fortunately, the Government's financing needs arising out of these deficits will not impinge on overloaded credit markets, as was the case in some earlier years. Last year a record volume of funds -- perhaps $150 billion -- was raised by all private and public borrowers in U.S. financial markets at generally falling interest rates. An ample flow of credit should continue through the balance of this year. We believe that Federal borrowing requirements, sizable as they are, can be met without a pronounced upward impact on yields in the capital markets. In fact, long-term rates may recede as we continue to make progress in curbing inflation.

Domestic economic policy has two prime objectives this year: to reduce both the rate of unemployment and the rate of inflation. A 6 percent rate of unemployment -- nearly 5 million people -- is clearly excessive. We must do better and we will do better. By the end of this year, we expect to reduce the unemployment rate to the neighborhood of 5 percent.

The Stabilization Program

On the price front, we have a good chance to achieve our goal of moderating the rate of inflation to below 3 percent by the end of this year. The wage-price freeze was a resounding success, but that doesn't tell us how Phase II is doing.

At present we are seeing the price bubble that was expected in the first months after the freeze. Once this interim period is behind us -- in a month or two -- we can begin looking for the true impact of the Phase II controls.

One interesting set of figures on the stabilization program -- while some of these have been reported, they have not received much attention -- relates to the first 41 pre-notification pay settlements approved by the Pay Board. These approvals are comprised of 26 new settlements covering half-a-million workers and 15 settlements involving retroactive and deferred payments covering 800,000 workers, including the coal and aerospace settlements, both of which called for increases in excess of the general 5.5 percent guideline and both of which received very great attention. However, in total these 41 settlements showed an average increase in pay of 5.9 percent. The increases in existing contracts and those involving retroactive pay averaged 6-3/4 percent, while the average increase on new contracts was just 4-1/2 percent.

Now these figures are significant, not because they tell us what the average pay settlement is likely to be for all of 1972; this is too small a sample for that. These averages are significant, rather, because they indicate the wide range of results we are sure to experience during the Phase II controls. Even before Phase II got underway, we knew there would be some settlements in excess of the general guideline that would be approved by the Pay Board. By the same reasoning, we should also expect -- and this is what many people forget -- that some settlements will fall below the general standard. I am told, in fact, that there have been a few labor contracts negotiated recently that called for no increase in wages (though none of these were included in the 41 settlements mentioned above).

What this reminds us, it seems to me, is that our economy is one that always exhibits great diversity of wage and price experience. We must, therefore, be careful to judge the stabilization program not on any one or handful of decisions, but on the basic thrust and results of the program over an extended period of time.

The Pay Board and the Price Commission are wrestling with a large number of difficult problems. They deserve our full support. In my opinion, there simply is no satisfactory alternative to making these controls work. The stabilization program can be dispensed with only when the threat of serious inflation has been eliminated. We cannot allow inflation to become a way of life.

In the last analysis, our domestic objectives translate into a need for less inflation, more jobs, and higher productivity. That requires a strongly expanding economy and high levels of investment in modern plant, equipment and techniques. This good performance domestically will also provide the foundation for a much more competitive performance in international markets.

International Developments

These past six months have been a very difficult period in the international as well as the domestic economic sphere -- a period of searching reassessments, major changes and strenuous international bargaining. But initial progress has been made, and I am confident that we are now on the right path. I admit to some optimism about the future.

The problems we faced on August 15 were indeed formidable. The difficulty was not just that we confronted a seriously deteriorating balance in trade and payments and a dangerous strain on our reserve assets. Those were the symptoms of our problem. The fundamental issue was how to revise the habits and institutions that had allowed the problem to arise. That required changing people's ways of thinking, revising basic premises, and modernizing outmoded but entrenched structures and institutions. Inevitably that is a slow and labored process. It will take a long time to complete. But a beginning has been made.

Our approach has covered the entire range of trade policy, financial policy and military burden sharing.

In trade policy, our objective has been to assure fair access for our exporters in international markets. We have sought this progress not through defensive or protectionist measures, but through programs aimed at expanding trade and removing inequities that may once have been acceptable but which are inappropriate in light of today's economic realities.

We followed a dual approach -- negotiations with our major trading partners, the European Community, Japan and Canada -- to resolve certain short-term obstructions at the earliest possible date, and more comprehensive negotiations looking toward the removal of more intractable trade barriers in 1972 and 1973.

The short-term negotiations have brought mixed results. The Japanese Government has announced certain trade liberalization steps of immediate and tangible value to the United States. The European Community has agreed to some limited measures. Regrettably, however, negotiations with Canada have not been brought to a successful conclusion, and we will seek appropriate means of reducing imbalances in our trade agreements with that country.

Looking ahead, both Japan and the European Community have agreed to join with the United States and others in more comprehensive negotiations commencing in 1973 and to continue solving trade problems in 1972.

In defense financing, we have sought to maintain fully the strength of our alliances, while proposing that our allies carry a larger share of the common defense burden in keeping with the great improvement in their financial strength. There have been some results. Last December our European NATO partners announced increases of about $1 billion in their defense contribution for 1972. They will do this by increasing the weapons they make available to the alliance. Also, in Germany, where most of our forces are concentrated, a substantial portion of our local currency expenditures are now covered through an offset agreement with the German Government.

Nonetheless, the burden-sharing problem has not yet been solved, and our military expenditures represent a large cost to our balance of payments. We must work toward more comprehensive arrangements for equitable sharing of this burden, to neutralize the balance-of-payments issue and allow the alliance to plan its forces solely on the basis of security criteria.

In the monetary sphere, after four months of intensive bargaining, the United States and ten other industrial nations negotiated a realignment of the pattern of exchange rates. Legislation is now before the Congress to implement the U.S. portion of that realignment. The realignment provides the dollar a competitive improvement of approximately 12 percent against its major competitors -- leaving aside Canada, whose exchange rate is floating and thus cannot be included in the measurement. The Smithsonian Agreement also introduced some badly needed flexibility in the system by widening the margins within which exchange rates can fluctuate, and brought agreement to begin work promptly on longer-term reform of the international monetary system.

There has been much debate about whether that 12 percent change in the pattern of exchange rates is too little, too much, or just right to restore market stability and international payments equilibrium. There have also been calculations purporting to measure the benefits which it might bring to the U.S. balance of payments. I have seen widely varying estimates of the first-year benefit to our trade and current accounts, and widely varying estimates also of the eventual benefit after the rates have been in operation for two or three years.

I have no great confidence in such estimates. Economic science has not progressed to the point where anyone can determine the precise pattern of exchange rates that will produce world payments equilibrium. Nor can anybody forecast with accuracy the trade effects which will result from the recent realignment.

Clearly the 12 percent exchange rate realignment provides an important opportunity for improving our balance of payments but it does not determine how well we shall make use of that opportunity. Our progress toward a viable position will depend on how well we manage our economy -- on our ability to stimulate expansion without rekindling inflation. Much will also depend on our ability to gain full access to international markets through more equitable and balanced trading arrangements. Progress will also depend on how vigorously our producers compete both in the U.S. market and overseas.

I can assure you that in the negotiations on this exchange rate realignment last December there were many who were concerned that the realignment agreed to might yield too great a competitive advantage to the United States. Needless to say, we on our side saw the problem differently. Inevitably, with vital interests at stake all around, tough bargaining occurred. In the end I think it was encouraging that the settlement reached was accepted by all parties -- and the general public as well -- as a fair settlement that benefited all nations. It was my view in December that the settlement had made a real contribution toward the achievement of a lasting equilibrium in world trade payments. That is still my view.

The Smithsonian Agreement was not expected to bring an instant and miraculous turnaround in our balance of payments. Experience with exchange rate changes by other nations had warned us that the initial effects may even be perverse,

until traders can take account of the new rates in commercial decisions. Time is needed for our exporters to seek out new markets, and for our importers to find new sources of supply.

We would therefore expect the U.S. balance of payments to remain in substantial underlying deficit throughout 1972, although significantly less than last year's basic deficit of $10-3/4 billion. But we should begin to see effects of the new rate structure before the end of 1972, even though the full effects may not be felt for two years or more. Over time other policies now coming into effect will also help -- both the new Domestic International Sales Corporations and the Job Development credit will be helpful in increasing the attractiveness of investing in the U.S. rather than abroad.

Since August 15, we have laid a foundation for restoring a stable international financial system and for restoring the strong external position we need to permit us to play our proper role as a provider of aid, as a supplier of capital, and as a defender of the free world. We must now build on that foundation. We must manage our domestic economy soundly, without inflation. We must press for more intensive negotiations to eliminate overseas trade barriers and improve burden sharing. In short, we must not relax but rather push ahead.

* * * * * *

In conclusion, let me repeat the four primary economic goals of this Administration for 1972:

-- more jobs

-- less inflation

-- higher productivity, and

-- a better-balanced international economic position.

At the same time, I want to make clear my belief that the Congress and the American people should not now -- or ever -- assume that these economic problems should just be turned over to the Federal Government for solution. Because Government, by itself, does not have the solutions. The Congress does not have them. The Administration does not have them. It will take all the Nation -- working together -- to provide the solutions.

I am one of those who has never believed that all of the wisdom in this Nation resides on the banks of the Potomac River in Washington, D. C. I to not think it has; I do not think it will.

I am one of those who believes in the vitality and productive capacity and ingenuity and enterprise of this Nation -- as a whole.

Despite all our difficulties, we still live in a Nation that all the world envies. And we shall continue in leadership if we work for productivity and growth and do not let our problems -- economic or otherwise -- deter us from reaching for a greater future for this land.

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The Department of the TREASURY

WASHINGTON, D.C. 20220 TELEPHONE W04-2041

NEWS

FOR IMMEDIATE RELEASE February 16, 1972

ANTIDUMPING INVESTIGATION INITIATED ON STAINLESS STEEL WIRE RODS FROM FRANCE

The Treasury Department announced today the initiation of an antidumping investigation of imports of stainless steel wire rods from France. This product is used primarily in the manufacture of major industrial appliances, springs, medical and dental instruments, and general fabricated products.

The Treasury announcement followed a summary investigation conducted by the Bureau of Customs after receipt of a complaint alleging that dumping was taking place in the United States.

The total value of stainless steel wire rods imported from France during the period January 1971 through August 1971 amounted to approximately $2,100,000.

# # #

REMARKS OF EDWARD P. SNYDER,
DIRECTOR, OFFICE OF DEBT ANALYSIS,
THE DEPARTMENT OF THE TREASURY
AT THE ANNUAL DISTINGUISHED SALESMAN'S
AWARD BANQUET OF THE SALES AND MARKETING EXECUTIVES,
MADISON, WISCONSIN, FEBRUARY 16, 1972.

I have been asked to discuss Phase II of the President's New Economic Program and the Administration's expectations as to its success and as to the length of time that controls will remain in effect.

Just last week I had the great privilege of participating in a small way in the White House Conference on the Industrial World Ahead. This was an occasion for some 1,500 businessmen and women, from all parts of the country and representing both large and small firms in every field of business, financial, industrial, and commercial, to exchange views about our country in the next two decades.

I found the discussions -- both prepared papers and the give and take in workshop sessions -- to be stimulating and thoughtful. There are many problems to be dealt with, and I suppose the Conference identified some of the more pressing when it focused on the social responsibilities of business, technology and resources, the human side of enterprise, and structure of the private enterprise system.

Yet, I am struck by this thought: Just a few years ago none of us, whether at the White House Conference last week, or here tonight in Madison, could have imagined the course of events which our country and the world has experienced since 1965.

All of us can visualize clearly the great potential of our country, and we can be confident that in 1990, when we are celebrating the 201st anniversary of this Nation under the Constitution, that we will be able to look back at two centuries of great accomplishment, not only against the historical challenges but also against the challenges of today: peace, justice, domestic tranquillity, equality, a better environment, and the rest.

But if the immediate picture is a little less clear for the year or two just ahead, perhaps we should take stock by looking back at the events which triggered the President's announcement of his New Economic Policy on August 15 last year.

I need not recite in any detail the disappointing response of the economy to the fiscal and monetary measures that had been taken earlier.

On the international front, moreover, our balance of payments situation had grown progressively more serious.

Deficits had developed in our trade accounts, and there was growing speculation against the dollar. All this was despite our best efforts to negotiate reductions in trade barriers and to open markets for American products.

Indeed, speculation against the dollar became so strong during the first part of 1971 that foreign central banks and other official institutions -- in supporting the system of fixed exchange rates at the established parities -- acquired over $12 billion of dollar claims which were invested in U. S. Government securities. This was in addition to the $21 billion they held at the start of the year.

By September the total had risen another $10 billion, and in the final quarter another $5 billion, making a total of $47 billion. This was looked at, both abroad and at home, as a threat to the stability of the whole Bretton Woods exchange system and even to our own financial stability.

In the domestic economy, there was no crisis in the same sense.

Despite our optimistic forecasts, however, unemployment had remained too high, real growth had remained too little, and inflation had remained too rapid. As Chairman Burns of the Federal Reserve System told the Joint Economic Committee last week, the economy simply had not responded as all past

experience had indicated it should.

Even so, there had been progress against inflation. This is evident in most of the price statistics, but the progress had been slower, more halting, and more irregular than was tolerable.

There had been progress on the employment front, but this had not been reflected in the unemployment rate which seemed stuck at 6%.

I should say, in this connection, without making excuses, that the problem of reducing the unemployment rate was even more difficult than usual.

In 1971 total civilian employment in this country increased by nearly 1.7 million jobs. This is a very large increase. But the numbers of persons unemployed remained practically unchanged. The civilian labor force increased by a far larger number than usual, in part as a result of the winding down of the war in Vietnam. That winding down added some 400,000 more to the potential labor force than would otherwise have come in.

August 15 was a watershed decision to take bold new steps to deal with the need for more jobs, for less inflation, and for a better, fairer deal in our international relationships.

On the international side the President's program had three prime goals: realignment of exchange rates, removal of trade barriers, and an increase in mutual security expenditures by other allied nations.

Agreements on currencies were reached at the Smithsonian on December 17 and 18, allowing us to drop the 10 percent surcharge and the buy-America provision in the Job Development Tax Credit.

Significant progress, also, has been made with regard to trade barriers and mutual security expenditures, and, as you know, the Administration has fulfilled its pledge to seek a revaluation of gold.

As a result, we can now see that U. S. products can become more competitive world-wide, new international markets can be opened up, and new profit opportunities can be revealed if we do the job of selling which is required.

On the domestic side, the Phase I freeze had resounding success, because of the American spirit. There was an extremely small percentage of non-compliance and most always because of lack of understanding, rather than malicious violation.

The temporary freeze had an impact on both prices and wages and gave us a breathing spell and time to put a Phase II

program in place which would allow some of the wage and price adjustments called for on economic and equity grounds, while at the same time holding back and holding down the increases which are not justified on those grounds.

An almost classic example of what can develop when necessary adjustments are denied is cowhides.

An active world market exists for cowhides, and prices have been on the rise because the Argentines have been withholding some of their usual supply to encourage development of their domestic industries.

During the freeze, world prices increased ten percent over pre-freeze levels, giving packers and other U. S. suppliers an incentive to sell for export, rather than domestically. The possibility of shortages was recognized very quickly -- though the situation was further complicated by the West Coast dock strike -- but there did not seem to be much of an impact until late in the freeze. At that point, vague rumors began to circulate about black markets, deterioration in product quality, and even dummy transactions to indicate the export of hides and their subsequent re-import at higher prices (with no movement of the hides actually taking place).

Phase II, with its greater flexibility of pricing, will help to prevent these practices from becoming widespread (if

they did occur in the first place), because it recognizes that the freeze caused difficulties for a great many people who got caught out of phase in one way or another. The thousands of requests for individual exemption provided evidence of the same kind of thing.

Of course, all but a small handful of those exemption requests were denied during the freeze period because of the larger goals of the freeze and the need for an even-handed administration. But that did not change the fact that many of the exemption requests represented genuine problems.

This is not to argue that the freeze should have been designed for greater flexibility. The success of the freeze in clamping a lid on wages and prices and in dampening expectations of future inflation far outweighed the temporary difficulties. What is clearly indicated, however, is how incompatible an extended freeze would be with a dynamic economy.

Coming to Phase II, there is great disagreement as to whether it will be a success or a failure. In part this reflects its complexity.

The Price Commission was the first hero or villian, depending upon your perspective, when it refused to allow

one company to pass through the entire cost of an excessive wage settlement to the consumer. This had the effect of putting businessmen on notice that they could not abrogate their responsibilities, could not simply turn over wage negotiations to the Pay Board and expect the Price Commission to be indifferent about the inflationary effects.

At the outset the Pay Board was subject to widespread criticism. The divisions among the public, the business and the labor members were made notorious in the newspapers and news magazines. And it was, and is, common gossip to accuse the Pay Board of permitting excessive wage increases.

To put the record straight, the average of all pay increases approved by the Board has been 5.67 percent, including retroactive agreements. In new prenotification cases, the average has been just 4-1/2 percent.

In some ways, the Pay Board has a far more difficult assignment than the Price Commission and how it solves its problems may very well have longer run importance in solving the serious dilemma in our economy, which is illustrated by the West Coast dock strike.

That is how the public interest can be protected in negotiations between management and labor, how labor contracts can be settled in a way which will be consistent with the

long run interests of all of us -- as businessmen, workers, consumers, as competitors with other nations.

This is not a unique problem for us. The British coal strike, which has crippled that Nation's economy, shows how difficult the problem can be for other democratic nations, as well.

Don't let yourself be complacent that Government can or will do the whole job. The powers of Government are limited, and they should be limited. This Nation was built on the accomplishments of free, private, competitive enterprise, and it is on this foundation that it can grow and prosper. Other nations have lost the competitive fire and the urge to excellence. They are now no longer first rate powers. They no longer provide the opportunities, the challenges, or the ability to afford the goals we have set ourselves.

If Phase II does succeed, as I think it has a good chance of doing, it will do so in the face of all modern precedence. Recent history is littered with the wreckage of incomes policies that were tried and failed.

There is one crucial difference between this present attempt to influence wage and price behavior by controls and the earlier failures. This is the significant volume

of unutilized resources. Unemployment is at 6 percent and manufacturers are using their facilities at only 75 percent of capacity. With this slack in the economy, the inflationary pressures of scarcity, demand-pull inflation, are not strongly present to undermine the control program.

It follows, however -- and this is worth emphasis -- that success is likely only if the program is temporary and does not continue too long after the economy gets moving rapidly forward again.

Indeed, there are none in Washington who find controls more distasteful than those who are specifically charged with their administration. This is as it should be, for our objective should be to restore the right kind of economic environment in which business and the whole American community can prosper without the expectation of inflation or unemployment. Indeed, the President has stated on many occasions, he intends to return to free markets and free collective bargaining at the earliest possible date.

The point is this: If the program were to be continued past the point where the economy has attained full employment; if it were continued as a substitute for responsible fiscal and monetary policies, it could not be successful. The underlying forces of supply and demand would become the basic

determinants of prices and costs, and inflation would threaten economic stability.

The Phase II controls can be a significant help in reducing inflationary expectations and thus shortening the time it will take to restore economic activity and attain reasonably stable price and wage behavior. But it seems as clear as ever that controls cannot succeed in suppressing prices and wages if underlying economic conditions put them under strong inflationary pressure. But neither can the controls be removed too early before they have done their job.

We have confidence that significant progress will be made in the economy this year. The official forecast a year ago was over-optimistic. The private concensus forecast was much lower and, if the proof of the pudding is in the eating, most private forecasters could take some pride in their 1971 performance.

This year there is little disagreement between the Government forecast and the forecasts of private forecasters. But it is worthwhile to emphasize that important risks remain.

Although the initial stages of the President's New Economic Program were an unqualified success, we have still far to go.

Perhaps the currency realignment and other measures that have already been taken will not prove to be enough to put the United States international position into a viable long-term condition. We have to put our house in order and improve our productivity and our salesmanship.

There is a risk that the standards and criteria of the Pay Board and Price Commission will not work. Either they could result in too much inflation slipping through the net, or they could prove too restrictive and result in a squeeze on profits, on investment, and on the number of new jobs being created.

There is the possibility that the economic advance will again fall short of the target. Or it could be that the tax reductions enacted by the Congress in conjunction with the other fiscal actions, will supply too much fiscal energy and that the expansion will be too vigorous and shoot us through full employment back into demand-pull inflation and a credit crunch.

These risks and others willbe with us throughout 1972. As best we can judge, however, the current policies balance the various risks involved and give us the best chance to reach our objectives.

Finally, no one in Washington is very happy about a $39 billion deficit in fiscal year 1972 or a $25 billion deficit in fiscal year 1973. But most of the deficit in fiscal 1972 and all of the deficit in fiscal 1973 will result from a deficiency in revenues reflecting the less than adequate performance of the economy. There is a balanced budget on a full employment basis in fiscal year 1973. But the balance is fragile. We will have to exercise great restraint over expenditures. This is the thrust of the President's recommendations for a spending ceiling which would be binding on both the Executive and the Congress.

We also expect that there will be an expansionary monetary policy this year and that, in combination with the fiscal stimulus, the unemployment rate will be brought into the 5 percent range by the end of the year, while at the same time real output will be increasing by 6 percent. We expect prices overall to rise only two-thirds as much in 1972 as in 1971.

In other words, we expect good business in 1972, and even better business in 1973, with improved profits and higher real earnings. But we all have a responsibility to keep our productive system working and working well. Free enterprise,

with a minimum of Government control and a maximum of competition, has resulted in the greatest economy that this world has ever seen. Our per capita output, our output per worker, our output per hour of work is the highest in the world. Yet we need to set new records every year, if we are to meet the challenges to clean up the environment, to eliminate discrimination, to provide a floor under the incomes of all of our people, to help build a peaceful world. I have confidence in our future, and it has been reinforced tonight.

Thank you.

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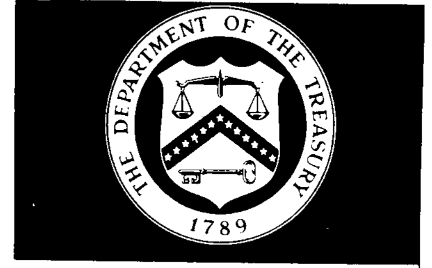
NEWS



February 17, 1972

Technical statement regarding temporary and proposed regulations on the investment credit for public utilities.

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The Treasury Department today issued the following technical statement affecting public utilities:

Proposed and temporary regulations under the investment credit provisions of the Revenue Act of 1971 which affect property of certain public utilities were published in the Federal Register for today, February 17,

These regulations implement provisions of section 46 (e) of the Internal Revenue Code of 1954, a new section added by the Revenue Act of 1971. In general, section 46 (e) provides three elective options with regard to the treatment of the investment credit by certain public utilities for rate-making purposes. Elections under this section must be filed by March 9, 1972.

Section 101 (c) of the Revenue Act of 1971 provides certain general rules for accounting for the investment credit. However, these rules do not apply to utility property covered under section 46 (e) of the Code. In certain cases where a particular election has been made, section 46 (e) of the Code prescribes rules for accounting for the investment credit for utilities; under other elections no accounting rules apply to property covered under section 46 (e). Whether or not the special accounting rules under section 46 (e) apply, the general accounting rules of section 101 (c) of the 1971 Revenue Act will not be applicable to public utility property covered by section 46 (e).

(OVER)

In the case of a consolidated group of corporations one or more of which is a public utility subject to the rules of section 46 (e), the provisions of section 101 (c) of the 1971 Revenue Act will not apply to property of the utility subsidiary as long as the parent corporation treats the public utility property on its books in the same manner as it is treated by the utility subsidiary.

For taxpayers who elect the option which requires certain accounting treatment, if the taxpayer has made the required adjustments to his regulated books of account by the date his 1971 election is required to be made, the booking requirements will be considered to have been met for 1971. For subsequent years, similar rules will apply to the booking requirements under these regulations as will apply to the normalization of the excess of accelerated depreciation over straight line under section 167 (1) and under the ADR system. Although proposed regulations under 167 (1) have not been issued, Treasury expects that these regulations, when issued, will provide that the booking requirements for normalization will be considered to be met for any taxable year if normalization is reflected in the regular annual report filed with the appropriate regulatory body for that year.

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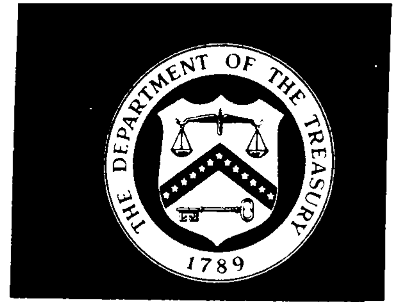

FOR RELEASE ON DELIVERY

STATEMENT OF
MR. JOHN M. HENNESSY, DEPUTY ASSISTANT SECRETARY FOR
DEVELOPMENT FINANCE, THE DEPARTMENT OF THE TREASURY,
BEFORE THE FOREIGN OPERATIONS AND GOVERNMENT
INFORMATION SUBCOMMITTEE OF THE
HOUSE COMMITTEE ON GOVERNMENT OPERATIONS
FEBRUARY 18, 1972, AT 10:00 A.M.

Mr. Chairman and Members of the Subcommittee, I appreciate the opportunity to review with you today the progress we have made in the reporting and collecting of overdue foreign debts since September 1971, when the last debt hearing was held by the Subcommittee. My prepared testimony focuses on answering the specific questions raised in your recent letter to the Secretary, as well as on the general problem of assuring timely payment of the debts owed to the United States.

Short-Term Indebtedness

Since the last hearing we have completed tabulating the reports submitted by U.S. Government agencies of their short-term credits to foreigners and accounts receivable from foreigners, as of June 30, 1971. These are the first reports -- although still tentative and preliminary -- made in our new reporting system

covering the short-term components of foreign debts to the United States Government.

Our tabulation shows the total debt arising from short-term credits amounted to $98.2 million. The debt from accounts receivable totaled $99.5 million from official obligors and $3.3 million owed by private foreigners.

Short-term credits were reported by only two agencies, the Commodity Credit Corporation and the Postal Service. The short-term debts owed to the CCC consist entirely of credits extended to finance sales of agricultural commodities to 20 countries both developed and less developed. The Postal Service short-term credit consists of a Bolivian repayment obligation to fund previously existing postal arrearages. Table 1 gives the details by country and program on the short-term credits as of June 30, 1971.

Foreign accounts receivable, on the other hand, were reported by a large number of agencies. The accounts receivable arise from a variety of government programs, and were reported by such diverse agencies as the Panama Canal Company, the Bureau of Mines, the Atomic Energy Commission, the St. Lawrence Seaway, and the military services. A complete tabulation of the accounts receivable reported by the agencies is contained in Table 2.

A major problem encountered in this initial tabulation of accounts receivable from foreigners was that we were not able to

get complete data as of June 30 from the military departments. The missing accounts are substantial, and we expect that future reports from the military departments will show a substantial increase over the amounts of accounts receivable for June 30.

Even with incomplete figures from Defense, the aggregate amount of accounts receivable reported to us is quite substantial. It is clear that this addition to our reporting requirement represents a significant forward step in our knowledge of foreign indebtedness to the United States Government. It is equally clear that we must press on to resolve the difficulties initially encountered so that future reporting in this area is complete and timely.

Agencies reported $58.6 million of accounts receivable as unpaid for 90 days or more; of this amount, $31.8 million was reported as being in arrears.

Total Short and Long-Term Debt

Since the Committee began its hearings in 1970, it has asked for a statement of the total long and short-term debt owed to the United States. The new short-term debt reporting system, combined with the existing long-term debt calculations, provide us with a basis for making a preliminary statement of the total long and short-term debt owed to the United States. Based on these figures, the total of the amounts due to the United States as of June 30, 1971, was $29,207 million. The total amount reported as in arrears was $518.2 million. The details are set forth in the following table:

Foreign Credits and Accounts Receivable Reported by U.S. Government Agencies as of June 30, 1971 */

	(millions of dollars)	
	Principal	Arrears
Long-term credits	$ 29,006.0	486.4
Short-term credits	98.2	
Total	29,104.2	486.
Accounts receivable		
From official obligors	99.5	31.8
From private foreigners (estimated)	3.3	
Grand Total	29,207.0	518.2

* The arrears figures shown in this table for long-term credits include $82.6 million overdue from the United Arab Republic on credits extended by the Commodity Credit Corporation under the GSM-3 Regulations and $39.1 million for the portion of the Republic of China debt to Eximbank which represents assets left on the mainland.

Review of Progress

This is the fourth hearing of this Subcommittee on the question of debt arrearages and it has been approximately a year and a half since the first hearing on this subject. From this perspective, I think it is worthwhile to review what has been accomplished and what we can expect for the future.

We have taken several important forward steps:

(1) New formal procedures have been instituted by the National Advisory Council and the State Department to assure more prompt and careful attention to debt arrearages.

(2) Other agencies of the government making international loans or engaging in international transactions have been made aware of the importance of debt arrearages as an element of creditworthiness in extending new loans and there has been a general increase in awareness throughout the government of the need to obtain prompt payment of debts owed to the United States.

One vehicle which has been used to accomplish this new awareness is the semi-annual debt review of the NAC. A review took place under my chairmanship on November 11. The number of participants at the meeting -- some fifty officials representing ten different agencies -- emphasized the continuing concern and determination of the Executive Branch to obtain full and timely payment of the foreign debts owed to the United States. I believe that the meeting, where we reviewed on a country-by-country basis the more significant debt problems and discussed various means to improve the collection process, helped to reinforce the interagency

coordination and cooperation in debt matters that has been developing through the NAC. One major consequence of our overall debt collection activity is that both foreign governments and our own people in the field are clearly on notice that the government is giving top priority to this matter.

Also, since last September, the NAC has established a working group on World War I debts. This group is in the process of developing alternatives for dealing with this long-standing and complex problem.

(3) In addition to achieving greater interagency cooperation, we have succeeded in making the international lending institutions aware of the significance of debt arrearages to overall creditworthiness. During the past few months, the staff of at least two international financial institutions -- IDB and IBRD -- have discussed with various governments, which had unpaid debts, the importance of meeting these obligations on time.

(4) Important results have been achieved in arranging for the payment of problem debts that had been long in arrears. Major debt settlements were reached with Indonesia, Korea and the UAR.

(5) A significant improvement in the collection of postal debts has been implemented.

(6) We have developed a greater awareness of the structure of the debt in arrears owed to the United States and where possibilities exist for reaching agreements on resumption of debt service.

These general accomplishments must be translated into direct results. When these hearings began in 1970 total arrearages amounted to $325.6 million. Although arrearages continue to arise due to new installments coming due, there has been a $5 million reduction in the total amount as of September 30, 1971, when we take into account the UAR debt settlement. This means that despite settlements with Indonesia, Korea and the UAR, which reduced arrearages by $80.5 million, new installments falling due on old arrearages and new arrearages have prevented a significant reduction in the total long-term debt due and unpaid.

Looked at on a country-by-country basis, in the period from December 1970 to the present, 8 countries eliminated their arrearages but 11 new countries were added to the arrearages list. Many of the new arrearages were small but, nevertheless, must be attended to. Table 3 gives the details of countries eliminated and new countries added.

It is our hope that some very recent repayments may indicate the beginning of a favorable trend. Since September 30, 1971, 14 countries settled arrears on various types of debts to the United States totaling $58 million, including settlement of the $54.6 million UAR arrearage. Only last week the Dominican Republic became current on its obligations to Eximbank, CCC and the U.S. Postal Service, by paying over $3 million. In January, Syria paid off its dollar arrearages to AID. Similarly, Sudan paid off its

long-standing obligations to AID in December of last year. Both Bolivia and Costa Rica made sizable payments on their postal debts recently; in addition, Bolivia paid off most of its AID delinquencies in October. A number of other countries, including El Salvador, Haiti, Mexico, the Philippines and Nigeria, which were shown as being delinquent on AID loans in September 1971, subsequently made full payments on their arrearages. The attached Table 4 gives the details of the countries and the amounts of arrearages corrected or reduced.

Taking a longer-term look, we will continue to be faced with significant arrearage problems. Recently Chile and Pakistan have fallen in arrears on the payments of their debts to the United States. The Pakistan case is a complex one, arising from acute political and military stresses and thus is similar in nature to several of the debt problems that in the past have been responsible for so much of the arrears. As the Committee is aware, over 90% of the total arrears problem arises from loans and credits made in wartime situations or are unsettled because of severe political difficulties.

The Chile problem is different. It results primarily from over-accumulation of debt and the poor management of the economy. I believe that this latter type of debt servicing problems of developing countries will be serious in the future. Ghana may be a similar new problem case. It has recently announced its desire to reschedule part of its outstanding debt, due to economic difficulties.

Independent studies by the World Bank and IMF last year attempted to analyze the causes and provide solutions to the debt servicing problems of developing nations. Through the international agencies working closely with developing nations to improve economic policies and debt management, we hope to minimize the number of these cases, but should recognize that new problems will arise.

Procedures for the Future

There will be problems that must be faced in the future on both the short and long-term debt arrearages. However, I believe, Mr. Chairman, that we now have a program which is capable of dealing with the short and long-term debt problems of the future.

First, we will continue our work to improve our short-term debt reporting system so that the figures are complete and timely. We will extend our NAC debt reviews to the short-term area and in particular focus our attention on the prompt payment of accounts receivable.

Second, we hope to make further progress in reducing the hard core debt arrearages that have constituted the great bulk of the problem, building on the successes achieved in Korea, Indonesia and the UAR. We look forward to a settlement of Iran's lend lease and surplus property debt.

Third, it is our hope that the new procedures implemented by the NAC and the State Department as well as the new awareness by the operating agencies of the importance of prompt debt payment to

the United States will lead to a significant reduction in new arrearages. We believe that foreign governments are already aware of our concern and that international lending institutions have indicated that they will take into account debt arrearages as an element of creditworthiness. Already we have seen from our own NAC deliberations that agencies holding back loans to delinquent countries and only in special circumstances has the NAC made an exception to its standing policy and approved loans notwithstanding the existence of debt arrearages.

Fourth, and finally, prompt attention will be given to the collection of any new arrearages that may come due. The mechanism now exists to accomplish this objective and it will be further improved by the availability of more timely data.

I am hopeful, Mr. Chairman, that the future will bring a reduction in the total debt arrears. Progress thus far has not been as fast as either you or the Treasury would like but I believe a significant beginning has been made.

TABLE 1

U.S. Government Short-Term Credits to Foreigners
Principal Outstanding Reported as of June 30, 1971
(In dollars or dollars equivalent)

Country	Commodity Credit Corporation 1/	U.S. Postal Service	Total Short-Term Credits	Due and Unpaid 90 Days or More
Belgium	3,085,451	-	3,085,451	-
Bolivia	843,369	439,823 2/	1,283,192	-
Congo	998,987	-	998,987	-
Denmark	521,935	-	521,935	-
France	324,889	-	324,889	-
Guatemala	948,881	-	948,881	-
Hong-Kong	1,456,147	-	1,456,147	-
Ireland	2,499,254	-	2,499,254	-
Jamaica	363,320	-	363,320	-
Japan	3,179,149	-	3,179,149	-
Liberia	950,102	-	950,102	-
Mexico	80,753	-	80,753	-
Netherlands	2,246,516	-	2,246,516	-
Norway	5,865,746	-	5,865,746	-
South Africa	7,009,896	-	7,009,896	-
South Korea	21,194,862 3/	-	21,194,862	-
Sweden	211,902	-	211,902	-
Thailand	6,604,355	-	6,604,355	-
United Kingdom	15,927,039	-	15,927,039	-
West Germany	24,886,890	-	24,886,890	-
Total, all countries	97,762,837	439,823	98,202,660	-

1/ Extended to private entities except for $5,328,331 extended to the Government of South Korea. Repayable in U.S. dollars.

2/ Repayable in foreign currency by the Government of Bolivia.

3/ Includes $5,328,331 extended to the Government of South Korea.

TABLE 2

U.S. Government Accounts Receivable From Foreigners
Amounts Reported Outstanding as of June 30, 1971
(In dollars or dollars equivalent)

Agency Program	Accounts Receivable Total	Private Foreign	Official Foreign Total	Unpaid 90
Total - all agencies	102,783,609	3,310,472	99,473,137	58,552,3
Department of Agriculture	8,321	8,321	-	-
Consumer and Marketing Service	8,321	8,321	-	-
Department of Commerce	51,179	50,440	739	-
International Aviation Facilities Act	-	-	739	-
Department of Defense	44,128,634	2,630,504	41,498,130	26,491,1
Civil				
Panama Canal Co.	4,437,565	1,675,557	2,762,008	2,373,5
Panama Canal Zone Gov't.	3,251,950	773,404	2,478,546	2,405,4
Military				
Air Force	1,086,050	181,543	904,507	691,6
Army	35,353,069	-	35,353,069	21,020,4
Department of Interior				
Bureau of Mines	8,381	8,381	-	-
Department of Justice				
Immigration and Naturalization Service	49,365	49,365	-	-
Department of State	8,585,819	194,762	8,391,057	5,553,5
Action	46,389	46,389	-	-
Agency for International Development	8,539,430	148,373	8,391,057	5,553,5
Department of Transportation	542,732	250,161	292,571	188,0
Federal Aviation Administration	259,042	7,849	251,193	163,1
St. Lawrence Seaway Development Corp.	242,312	242,312	-	-
U.S. Coast Guard	41,378	-	41,378	24,9
Department of the Treasury	21,751,369	-	21,751,369	21,751,3
Bureau of Accounts	21,751,369	-	21,751,369	21,751,3
Independent Agencies	27,657,809	118,538	27,539,271	4,568,1
Atomic Energy Commission	4,612,148	94,266	4,517,882	170,9
Export-Import Bank	761,796	-	761,796	-
Tenessee Valley Authority	24,272	24,272	-	-
U.S. Postal Service	22,259,593	-	22,259,593	4,397,1

1/ Amounts in this column are those sums remaining outstanding 90 days after initial billing and are not necessarily in arrears.
2/ These amounts are considered in arrears.

TABLE 3

CHANGE IN ARREARS IN LONG-TERM CREDITS TO FOREIGN GOVERNMENTS BETWEEN DECEMBER 1970 AND PRESENT

COUNTRIES ADDED TO ARREARAGE LIST (11)	AMOUNT
CAMEROON	$ 6,800
CEYLON	207,000
ETHIOPIA	23
ISRAEL	18,018
PAKISTAN	1,807,347
SOMALIA	25,302
RHODESIA	806,839
THAILAND	1,071
TURKEY	928,133
URUGUAY	3,209
ZAMBIA	580,641

COUNTRIES REMOVED FROM ARREARAGE LIST (8)	AMOUNT
AFGHANISTAN	$ 703
COSTA RICA	8,300
DOMINICAN REPUBLIC	1,318,172
JORDAN	127,606
INDONESIA	17,246,680
KOREA	8,458,570
SUDAN	803,599
UAR	54,756,546

ARREARAGES SETTLED OR REDUCED SINCE 9/30/1971

	TOTAL	FOREIGN ASSISTANCE ACT COUNTRY LOANS	EXIMBANK	P.L. 480 DOLLAR SALES	P.L. 480 CURRENCY LOANS TO GOVERNMENTS
BOLIVIA	72,483	72,483	----	----	----
DOMINICAN REPUBLIC	1,318,172	----	----	1,318,172	----
EL SALVADOR	1,185	1,185	----	----	----
ETHIOPIA	381,500	----	381,500	----	----
GUINEA	4,479	----	----	4,479	----
HAITI	5,600	5,600	----	----	----
MALI	7,311	----	----	----	7,311
MEXICO	1,031	1,031	----	----	----
NIGERIA	110,807	110,807	----	----	----
PHILIPPINES	77,452	77,452	----	----	----
SIERRA LEONE	19,297	----	----	19,297	----
SUDAN	803,599	9,096	----	----	794,503
SYRIA	16,658	16,658	----	----	----
UAR	54,756,546	21,975,979	28,045,200	4,735,367	----
TOTAL	57,576,120	22,270,291	28,426,700	6,077,315	801,814
Amts. Delinquent on 9/30/71		32,110,111	82,515,200	7,565,895	26,849,921
Minus Adjustments		22,270,291	28,426,700	6,077,315	801,814
Adjusted Totals		9,839,820	54,088,500	1,488,580	26,048,107

The Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE W04-2041

ADVANCE FOR PMs TUESDAY
FEBRUARY 22, 1972

EXCERPTS FROM REMARKS
ON THE ECONOMIC OUTLOOK BY
EDGAR R. FIEDLER
ASSISTANT SECRETARY OF THE TREASURY FOR ECONOMIC POLICY
AT THE NATIONAL AGRICULTURAL OUTLOOK CONFERENCE
9:45 A.M.

The major dimensions of the economic outlook for 1972 have by now become well known. This outlook, widely shared by government, business and academic economists, calls for a healthy rise in production and employment, a reduction in unemployment and inflation, and a gradually developing improvement in the Nation's external economic position.

These expectations are receiving strong support from every direction. Scratch an economist these days and, whatever his persuasion -- Keynesian, monetarist, model builder, leading indicator devotee, whatever -- you'll find a consensus forecast.

In addition, while the forecasters differ on some of the details, there is surprising unanimity on an across-the-board advance. Other than housing, which experienced a boom of record-setting proportions in 1971, every major economic sector will contribute more growth this year than last.

The usual quota of uncertainties about the economy remains. Although the consensus forecast extends to prices -- with most analysts anticipating a slowdown to about a 3 to 3-1/2 percent increase for the year -- there is perhaps less confidence about this part of the outlook than the others. No one is sure whether the policies of the Price Commission and Pay Board will prove to be compatible with each other, and whether they will be compatible with an expanding economy. My own view is that the stabilization program has a good chance to achieve its goal of

slowing the inflation to an annual rate of 2 - 3 percent by the end of 1972. Some uncertainties remain also about the impact of the major changes that have been made in the international monetary system. How freely consumers will spend is always a matter of some doubt.

Nevertheless, adding up all the possibilities, the uncertainties and doubts are in the minority. We will no doubt experience a number of economic surprises this year -- every year has its share. For the present, however, the best bet is a healthy rise in business activity -- not a rampant boom, but an advance that is vigorous enough to put a significant dent in the unemployment rate in 1972.

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The Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE WO4-2041

ATTENTION: FINANCIAL EDITOR

FOR RELEASE 6:30 P.M. February 18, 1972

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced that the tenders for two series of Treasury bills, one series to be an additional issue of the bills dated November 26, 1971, and the other series to be dated February 24, 1972, which were offered on February 11, 1972, were opened at the Federal Reserve Banks today. Tenders were invited for $ 2,400,000,000 or thereabouts, of 91 -day bills and for $ 1,800,000,000 or thereabouts, of 182 -day bills. The details of the two series are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	91 -day Treasury bills maturing May 25, 1972		182-day Treasury bills maturing August 24, 1972	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv. Annual Rate
High	99.214	3.109%	98.235	3.491%
Low	99.196	3.181%	98.218	3.525%
Average	99.205	3.145% 1/	98.224	3.513% 1/

78% of the amount of 91-day bills bid for at the low price was accepted
71% 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	$ 23,325,000	$ 13,325,000	$ 18,910,000	$ 860,000
New York	3,300,450,000	2,037,970,000	3,172,590,000	1,631,430,000
Philadelphia	28,840,000	13,740,000	10,070,000	3,855,000
Cleveland	25,595,000	25,510,000	15,780,000	5,130,000
Richmond	7,610,000	7,610,000	6,725,000	1,725,000
Atlanta	35,000,000	14,000,000	35,480,000	6,300,000
Chicago	242,455,000	169,355,000	276,665,000	101,665,000
St. Louis	32,705,000	22,485,000	16,375,000	7,375,000
Minneapolis	31,980,000	22,880,000	43,800,000	6,200,000
Kansas City	33,110,000	20,200,000	19,740,000	5,280,000
Dallas	35,420,000	13,420,000	27,275,000	5,175,000
San Francisco	109,125,000	39,785,000	143,290,000	26,590,000
TOTALS	$ 3,905,615,000	$ 2,400,280,000 a/	$3,786,700,000	$1,801,585,000 b/

a/ Includes $172,380,000 noncompetitive tenders accepted at the average price of 99.205
b/ Includes $ 64,430,000 noncompetitive tenders accepted at the average price of 98.224
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 3.22 % for the 91 -day bills, and 3.64% for the 182-day bills.

The Department of the TREASURY

WASHINGTON, D.C. 20220 TELEPHONE W04-2041

NEWS

FOR IMMEDIATE RELEASE February 22,1972

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 $4,200,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing March 2, 1972, in the amount of $3,901,360,000, as follows:

91-day bills (to maturity date) to be issued March 2, 1972 in the amount of $ 2,400,000,000, or thereabouts, representing an additional amount of bills dated December 2,1971, and to mature June 1, 1972 (CUSIP No. 912793 ND4),originally issued in the amount of $1,600,870,000, the additional and original bills to be freely interchangeable.

182-day bills (to maturity date) to be issued March 2, 1972, in the amount of $1,800,000,000, or thereabouts, representing an additional amount of bills dated August 31, 1971, to mature August 31, 1972 (Cusip No. 912793 NK8), originally issued in the amount of $1,199,890,000 (an additional $500,275,000 was issued November 30, 1971), 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, February 28, 1972. Tenders will not be received at the Treasury Department, Washington. Each tender must be for a minimum of $10,000. Tenders over $10,000 must be in multiples of $5,000. In the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e.g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor

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

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Only those submitting competitive tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on March 2, 1972, in cash or other immediately available funds or in a like face amount of Treasury bills maturing March 2, 1972. 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.

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The Department of the TREASURY

WASHINGTON, D.C. 20220 TELEPHONE W04-2041

NEWS

FOR RELEASE ON DELIVERY

STATEMENT BY THE HONORABLE PAUL A. VOLCKER
UNDER SECRETARY OF THE TREASURY FOR MONETARY AFFAIRS
BEFORE THE COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS
OF THE UNITED STATES SENATE
TUESDAY, FEBRUARY 22, 1972, AT 10:00 A.M.

Mr. Chairman and Members of the Committee:

I appreciate your scheduling S. 3160 for prompt consideration by the Committee, and I welcome the opportunity to present the Administration's views on this important legislation.

The essential purpose of this bill can be stated quite simply: it would authorize a change in the par value of the dollar in the International Monetary Fund to the equivalent of $38 per ounce of gold. It would thus enable the United States to implement its portion of the multilateral realignment of exchange rates negotiated at the Smithsonian Institution last December 18.

The Smithsonian Agreement provided for changes in the pattern of exchange rates of the major industrial nations.

It called for devaluation of the dollar, and revaluation of a number of currencies of Europe and Japan. In total, the resulting exchange rate changes yield a weighted average realignment of approximately 12 percent between the dollar and the currencies of the other industrial nations, excluding the Canadian dollar, which continues to float. We regard this realignment as a major step in our efforts to restore international monetary stability and to re-establish the strength of our trade and external financial position.

The Smithsonian Agreement also gave explicit recognition to the relevance of trade arrangements in assuring a new and lasting international equilibrium. Our willingness to propose to the Congress devaluation of the dollar was contingent on the availability for Congressional scrutiny of the results of our efforts to negotiate short-term trade measures with our major trading partners. Intensive negotiations have led to agreements with Japan and the European Community. These agreements, the details of which have been made available to Congress, make some immediate

progress toward improving our access to foreign markets. Potentially of greater importance, they look toward more comprehensive negotiations in 1972 and 1973 on some questions of great significance to our trade in the future. We thus regard the agreements reached as useful first steps in our efforts to assure better access for our traders in international markets.

Regrettably, we have not been able to reach agreement with Canada. Our intention remains to seek appropriate means of reducing imbalances in trade agreements and arrangements with that country.

The proposed devaluation would be effected by changing the par value of the dollar, as expressed to the International Monetary Fund, from one thirty-fifth to one thirty-eighth of a fine troy ounce of gold. That is a reduction of 7.89 percent in the amount of gold equal to one dollar or, looked at the other way, an increase of 8.57 percent in the number of dollars equal to one ounce of gold.

The legislation we are proposing, in Section 2, authorizes the Secretary of the Treasury to take the necessary steps to

accomplish that change in par value. The need for Congressional authorization for this step is specified in the Bretton Woods Agreements Act of 1945, which governs our relationship with the International Monetary Fund. Following Congressional approval, the new value would be communicated to the International Monetary Fund. Under the Articles of Agreement of the International Monetary Fund, IMF concurrence in this change is not required because the change in par value is within 10 percent of the parity communicated to the International Monetary Fund at its founding.

Along with necessary changes in par values by other countries, this action would formalize the pattern of exchange rates which was negotiated last December and which, de facto, has been prevailing in exchange markets since that time. I should note, however, the formal change in par value does not end the suspension of the convertibility of the dollar into gold or other reserve assets, initiated on August 15 of last year.

The most important consequence of the international realignment of currency values is, of course, that it

increases the price of most important foreign currencies in terms of dollars. In this way, the cost and prices of foreign produced goods and services, when expressed in dollars, are increased relative to those produced in the United States. Imports will tend to become more expensive, thus reducing the growth in imports and stimulating domestic production. Our exporting firms will be in a position to quote lower prices in terms of foreign currencies and have new incentives to seek out foreign markets. Thus, the competitive position of U. S. producers, both in the United States and in overseas markets, will be substantially assisted.

Over time -- and it will take time for trade flows to be substantially altered -- these changes should work strongly toward restoring a trade surplus for the United States. We believe a sizeable trade surplus must be an essential part of a healthy external position for the United States economy. Moreover, at a time of some economic slack, the stimulus to domestic jobs and production implicit in this action is fully consistent with our economic objectives at home.

We believe this result is not only in our interest.

A stable dollar and a strong trade position for the United States -- a position capable of supporting our heavy responsibilities for aid, for defense, and for maintaining open capital markets -- seems to me in the interests of all concerned with a healthy world economy, a stable monetary system, and a liberal trading order.

Apart from the important economic effects of the exchange rate realignment, the change in par value of the dollar necessarily entails some changes in the asset and liability position of the United States Government, expressed in dollars. Specifically, the dollar value of United States gold and certain other reserve assets will increase by 8.57 percent. Under the provisions of various international agreements previously authorized by the Congress, the dollar value of certain subscriptions and contributions to various international financial and lending institutions will also need to increase to maintain their nominal gold value. The effect is to maintain the relative share of U. S. participation in these institutions and, thus, our share of the ownership and voting power. A detailed

statement of the increase in various United States assets and liabilities consequent to this legislation has been submitted to the Congress with the draft bill.

As indicated in that summary, the various adjustments can be condensed into five categories:

(1) The dollar value of our gold holdings will increase by some $828 million. Because gold certificates can be issued against this gold, an equivalent cash gain for the Treasury will reduce our borrowing needs, with consequent savings in interest cost. However, under the practices of the unified budget concept, the cash gain will not itself be recorded as a budgetary receipt.

(2) Our International Monetary Fund subscription, which determines both our rights to draw foreign currencies and our obligation to provide our currency to the Fund, will be increased in terms of dollars. The over-all value of our subscription will increase by 8.57 percent, or $575 million.

However, because part of our subscription has been paid in gold in the past, and therefore requires no maintenance of value, our obligation to provide additional dollars to the Fund will be limited to some $525 million. These monetary transactions have no budgetary or cash impact; the maintenance of value obligation will be satisfied by a letter of credit.

(3) Maintenance of value of the paid in subscriptions to the international development institutions will require as much as $406 million to be paid in letters of credit. As drawn upon, this will entail both a cash and budgetary drain. The impact, however, will be spread over a period of ten years or more, beginning in fiscal year 1974.

(4) Our subscriptions to the callable capital of the international development institutions will increase by some $663 million. The principal

function of these subscriptions is to provide ultimate security for the private market borrowings of these institutions; the subscriptions have never been called in the past, and we consider it highly unlikely they would be called in the future. Thus, this obligation represents a remote contingent liability, without budgetary or cash impact.

(5) Net losses on certain operational foreign exchange accounts maintained by the Exchange Stabilization Fund and the Federal Reserve will be absorbed by those institutions.

It is contemplated that the various obligations incurred by maintenance of value requirements, however remote, will need to be covered by appropriations in an approximate amount of $1.5 to $1.6 billion. These appropriations, of course, only deal with the liability side of the equation and do not reflect the offsetting gains.

Over-all, the net result of the series of transactions will be:

-- In terms of its effects on Treasury cash, to increase our resources.

-- In terms of budgetary expenditures, a probable rough balance between savings on interest expense (as a result of the added cash resources of the Treasury) and the additional paid-in capital subscription to the international development institutions.

-- In terms of our over-all asset and liability position, a rough offset between added contingent and deferred liabilities and the increased value of our gold and capital subscriptions.

The proposed legislation is a key element in the effort launched by President Nixon last August 15 to strengthen the United States international economic position and restore international monetary stability. As you will recall, on August 15 he announced both suspension of the convertibility of the dollar and a temporary 10 percent surcharge on imports as means for encouraging an adjustment of exchange rates and

trading practices that would permit strengthening of our external position. The factors leading up to those actions included massive capital flows as well as a more fundamental deterioration in U. S. trading accounts. More broadly, deep-seated imbalances and strains have been increasingly apparent in the international monetary system, and these must be dealt with through comprehensive monetary reform. We believe a comparable review of trading practices is also necessary.

These matters are reviewed at some length in the Treasury document submitted with the legislation, and I will not repeat that chronicle here. The basic point is that events demanded decisive action. Such action was initiated in the suspension of dollar convertibility and other measures of the New Economic Policy. The change in the gold value of the dollar is one step -- but only one step -- in the implementation of the program to restore the strength of our position and to lay the groundwork for a lasting reform of the monetary structure.

In the international negotiations triggered by the August 15 decisions, a prime United States objective was to

obtain a major international currency realignment. We entered these negotiations with the strong view that the preferable course would be to achieve the necessary realignment without disturbing the long-established official dollar price of gold. Moreover, we were aware that unilateral U. S. action to achieve a realignment simply by changing our stated price for gold was not feasible because of the probability that other countries would follow suit in whole or in part. The net effect would have been a general increase in the official price of gold, inevitably stimulating speculation about subsequent increases, without achieving the necessary realignment of exchange rates in the market. Thus, international agreement on an appropriate pattern of exchange rates was essential.

As the negotiations progressed, certain other countries strongly resisted a realignment of exchange rates not accompanied by formal devaluation by the United States in terms of the official gold price. It also became clear that, whether or not the United States "participated" in terms of a change in the price of gold, there was strong resistance

to sizeable exchange rate changes vis-a-vis the dollar and great sensitivity to the parallel decisions of their other trading partners.

In this difficult negotiating situation, the conclusion was reached that, if a change in the dollar price of gold was to be included, we could obtain an earlier and more favorable resolution of the realignment question. Thus, we concluded a bargain which provided for a substantial exchange rate realignment and included changes in the gold parity of the dollar as well as those of a number of other currencies.

I must emphasize that this decision in no way changes our view that the monetary role of gold should continue to diminish -- a trend well established in recent years. In this instance, a change in the official dollar gold price has been necessary to facilitate a currency realignment. At the same time, the official price of gold in terms of a number of other currencies will decline. These changes in no way suggest that gold provides a satisfactory basis for supplying necessary increases in world liquidity in the

years ahead. To the contrary, I believe the difficulty of these recent negotiations, and the ensuing speculation in private gold markets, emphasizes further the need to move away from dependence on gold in the monetary system internationally, an objective long since achieved by virtually all countries domestically.

Finally, I want to emphasize, too, that exchange rate changes, important as they are, are not the full answer to our balance of payments problem. I have already referred to the importance of trading arrangements that provide our exporters with equitable access to other markets. In closing, I would underscore a still more basic consideration -- that, in the end, our success will rest on the success of our economy here at home -- our ability to achieve growth without inflation, to restore the vigor of our export industries, to improve our technology, and to spur productivity. These are the fundamentals reflected in the total program of the President, of which monetary changes can be only one aspect.

Mr. Chairman and Members of the Committee, you have before you a clean and simple bill to accomplish a single

purpose -- to devalue the dollar as part of a general realignment of currency values. We appreciate your prompt attention to it. Early enactment by the Congress will reaffirm the validity and acceptability of the exchange rates negotiated in the Smithsonian Agreement. I hope you will consider it in this context and avoid amendments that can only distract from the purpose. We can then complete one important step toward re-establishing the strength of our external position and help clear the way to substantive discussion of longer range reform of the monetary and trading system.

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The Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE W04-2041

FOR IMMEDIATE RELEASE February 22, 1972

ANTIDUMPING INVESTIGATION INITIATED ON ROLLER CHAIN, OTHER THAN BICYCLE, FROM JAPAN

The Treasury Department announced today the initiation of an antidumping investigation of imports of roller chain, other than bicycle, from Japan. Roller chain is used for power transmission and for load conveyance.

The Treasury announcement followed a summary investigation conducted by the Bureau of Customs after receipt of a complaint alleging that dumping was taking place in the United States.

The total value of roller chain, other than bicycle, imported from Japan during the period from January 1971 through October 1971 amounted to approximately $5,800,000.

The notice was published in the Federal Register of February 19, 1972.

# # #

The Department of the TREASURY

WASHINGTON, D.C. 20220 TELEPHONE WO4-2041

NEWS

ATTENTION: FINANCIAL EDITOR

FOR RELEASE 6:30 P.M., February 22, 1972

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 November 30, 1971 , and the other series to be dated February 29, 1972 , which were offered on February 15, 1972, 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 365-day bills. The details of the two series are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	275-day Treasury bills maturing November 30, 1972		365-day Treasury bills maturing February 28, 1973	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv. Annual Rate
High	97.083 a/	3.819%	95.924	4.020%
Low	97.029	3.889%	95.777	4.165%
Average	97.050	3.862% 1/	95.852	4.091%

a/ Excepting 2 tenders totaling $215,000
5% of the amount of 275-day bills bid for at the low price was accepted
2% of the amount of 365-day bills bid for at the low price was accepted

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

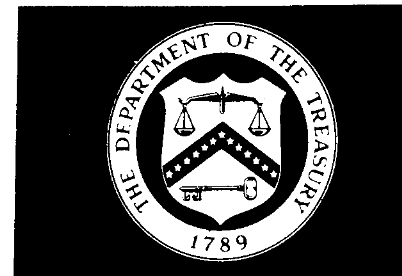
District	Applied For	Accepted	Applied For	Accepted
Boston	$ 10,070,000	$ 70,000	$ 20,255,000	$ 10,255,000
New York	1,303,805,000	435,655,000	1,608,785,000	983,785,000
Philadelphia	635,000	635,000	795,000	795,000
Cleveland	4,470,000	1,470,000	3,575,000	3,575,000
Richmond	430,000	430,000	470,000	470,000
Atlanta	15,845,000	3,845,000	24,200,000	16,200,000
Chicago	92,620,000	23,620,000	134,895,000	74,995,000
St. Louis	6,685,000	3,685,000	6,990,000	5,990,000
Minneapolis	8,910,000	5,910,000	10,605,000	10,605,000
Kansas City	7,380,000	2,380,000	7,475,000	7,475,000
Dallas	23,050,000	1,050,000	23,685,000	12,725,000
San Francisco	52,330,000	21,330,000	73,175,000	73,175,000
TOTALS	$1,526,230,000	$ 500,080,000 b/	$1,914,905,000	$1,200,045,000 c/

b/ Includes $ 12,990,000 noncompetitive tenders accepted at the average price of 97.050
c/ Includes $ 19,890,000 noncompetitive tenders accepted at the average price of 95.852
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 4.01 % for the 275-day bills, and 4.28% for the 365-day bills.

The Department of the TREASURY

WASHINGTON, D.C. 20220 TELEPHONE W04-2041

NEWS



FOR IMMEDIATE RELEASE February 23, 1972

ANTIDUMPING INVESTIGATION INITIATED ON SULPHUR FROM CANADA

The Treasury Department announced today the initiation of an antidumping investigation of imports of sulphur from Canada.

The greatest single use of sulphur is in the manufacture of sulphuric acid, which is used in a wide range of manufacturing processes such as the production of fertilizers, chemicals and textiles.

The Treasury announcement followed a summary investigation conducted by the Bureau of Customs after receipt of a complaint alleging that dumping was taking place in the United States.

The total value of sulphur imported from Canada during the period December 1970 through November 1971 amounted to approximately $11 million.

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

STATEMENT BY THE HONORABLE SAMUEL R. PIERCE, JR.
GENERAL COUNSEL OF THE TREASURY
BEFORE THE
SENATE COMMITTEE ON THE DISTRICT OF COLUMBIA
ON S. 2196
WEDNESDAY, FEBRUARY 23, 1972, AT 10:00 A. M.

Mr. Chairman, I am pleased to be here today to express the Administration's strong support of S. 2196, a bill to establish a District of Columbia Development Bank. This proposal would mobilize the capital and expertise of the private community to provide for an organized approach to the problems of economic development in the District of Columbia.

In his April 7, 1971 message on the District of Columbia, the President proposed that the Federal Government give special attention to helping the District government help itself in such areas as mass transit, clean water, and human resources development. These proposals support a vigorous, expanding economy in the Nation's Capital and would help create a climate that favors economic growth. To assist business and industry in taking advantage of that climate, the

President urged creation of a Development Bank for the District of Columbia. The President stated:

> Such a Development Bank, forging a new partnership among Federal officials, local officials, and representatives of the private sector, would serve as an action center in assembling the necessary combinations of capital and management skills so that economic development opportunities do not go begging as they have sometimes done in the past.
>
> Washington has been called, not too kindly but with a measure of truth, a "company town." Inevitably the Federal Government will remain a dominant factor in the metropolitan economy, but one-industry communities all over the Nation are seeing the wisdom of diversifying, and often it is the major employer in the community which takes the lead in broadening the economic base to create new jobs and wider prosperity. Certainly that should be the case in Washington, and can be if we move to establish the Development Bank.

In his October 13, 1971 message on Minority Enterprise, the President repeated his recommendation for enactment of the District of Columbia Development Bank Act of 1971. Legislation to implement the President's recommendation was transmitted to the Congress by Secretary Connally on June 10, 1971. Mr. Chairman, we appreciate your introducing this proposal as S. 2196.

This legislation would create a corporate body to be known as the District of Columbia Development Bank, which would not be an agency of the United States.

The Bank would have a board of directors consisting of eleven persons: the Commissioner of the District of Columbia, the Chairman of the City Council of the District of Columbia, three officers or employees of the United States or the District government designated by the President, and six directors elected by the shareholders of the Bank. I should like to point out that the House bill, H.R. 11313, provides for thirteen directors, with eight elected directors, and that we have no objection to the larger board provided in H.R. 11313. Under both versions, one of the elected members would be selected by the board to serve as its chairman, and the board would appoint a president of the Bank to serve as the Bank's chief executive officer.

The Bank would assist economic development projects embracing housing, commerce, and industry by mobilizing the capital and expertise of the private sector, serving as catalyst and lender of last resort.

We have often found that the part of the private sector which would be willing to attempt some form of economic development within the city is so fragmented, lacking in technical and financial expertise, or lacking in start-up funds, that it cannot get a project started.

This especially is true for large projects, projects which are innovative, or projects which involve special risk situations. The Bank would determine the feasibility of a proposed project, organize the sponsors -- no one of which might be able to take on the project individually -- into a cohesive group, and mobilize and combine the private, Federal, and municipal planning and resources. The Bank would pull together the many separate public, commercial, technical, and financial elements necessary to get any major development project "off the ground."

The Bank also would be authorized to provide technical assistance and training in the preparation and implementation of comprehensive development programs, including formulation of specific project proposals.

The Bank would be authorized to purchase debt obligations and equity instruments, and to guarantee debt obligations. Loans and equity investments would be made in accordance with sound and prudent development banking principles, and would be made with the objective of assuring a reasonable return on the invested funds, consistent with the achievement of economic development goals.

To be effective in mobilizing the maximum amount of direct private financial participation, the Bank would

project an image as the local lender of last resort. Using its capital and borrowed funds as start-up or seed money, the Bank would seek to induce other lenders and investors to support development projects through loans to and purchases of equity shares in the projects, or a combination of these methods.

The Bank's function, thus, would be to assume the lead role in putting the project "package" together, through assistance in obtaining any necessary Federal and District approvals, infrastructure grants, or other public investment. Then the Bank would help arrange for private financing and equity, and, if necessary, provide Bank loan funds and equity participation.

The Bank would not be in competition with private bankers developers, businessmen, government agencies or community groups. Rather, it would be a logical and necessary complement to their efforts in obtaining the necessary approvals and financing for projects of difficult implementation.

The Bank would be expected to obtain its capital entirely from private sources through the sale of common stock and issuance of debt obligations. At least one-half of the amount of common stock subscriptions

would be paid the Bank at the time of subscription with the remainder to be paid within two years after subscription. The Bank would be authorized to borrow up to 15 times the Bank's capital and surplus.

In addition, the Bank would be authorized to issue obligations to the Treasury after the Bank has at least $2 million in paid-in capital. This source would be used only as standby support for the Bank's borrowings in the public market. The Treasury's purchases could not exceed the lesser of twice the amount of the Bank's capital, or $10 million. The interest rate on these issues to the Treasury would be based on the rates paid by the Bank on its other obligations of similar maturity, but not less than the average yield on outstanding Treasury obligations of comparable maturity.

In years that the Bank has net earnings and has no outstanding borrowings from the Treasury, it would be allowed to pay its stockholders dividends limited to six percent on the amount of paid-in capital. The Bank's earnings and dividends, and interest on the Bank's obligations would be fully subject to local and Federal taxes.

Frequently in the past proposed solutions for the problems of community economic development were simply

proposals to appropriate increasing amounts of Federal funds. Too little thought and attention was given to the availability of private financial resources or to the capacity of the intended recipients of the proposed Federal financial assistance to match such assistance with community development needs. The proposed D. C. Development Bank would seek to fill the gap between needs and available resources and to catalyze local efforts. Thus the Bank would provide technical assistance and mobilize the private expertise and capital necessary to guide local project sponsors through the steps necessary for successful project development and implementation.

The Federal role would be limited. No Federal appropriations to the Bank are contemplated. Rather, the Federal charter provided by the enactment of the bill would be indicative of general Federal support; the modest standby authority for the Bank to borrow from Treasury would help to provide the assurances necessary for the Bank to issue its own obligations in the market; and the provision in the bill for possible designation of Federal officers or employees to the board of directors of the bank would be a formal means

for the Bank to maintain direct contact with the Federal Government.

In conclusion, Mr. Chairman, the D. C. Development Bank is sound and constructive legislation from the standpoint of both the Federal Government and the District of Columbia. This legislation will fill a serious gap in our present delivery system and will further our common efforts to promote the economic development of the District of Columbia. I am happy to assure you of the Administration's strong support for S. 2196 and to urge its prompt passage by your committee.

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The Department of the TREASURY

WASHINGTON, D.C. 20220 TELEPHONE W04-2041

NEWS

FOR IMMEDIATE RELEASE February 23, 1972

ANTIDUMPING INVESTIGATION INITIATED ON IMPRESSION FABRIC OF MAN-MADE FIBER FROM JAPAN

The Treasury Department announced today the initiation of an antidumping investigation of imports of impression fabric of man-made fiber from Japan. This item is suitable for use as typewriter, computer, or other machine ribbon or tape.

The Treasury announcement followed a summary investigation conducted by the Bureau of Customs after receipt of a complaint alleging that dumping was taking place in the United States.

The total value of impression fabric of man-made fiber imported from Japan during the period from January 1971 through December 1971 amounted to approximately $1.8 million.

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The Department of the TREASURY

WASHINGTON, D.C. 20220 TELEPHONE W04-2041

NEWS

FOR IMMEDIATE RELEASE February 24, 1972

TREASURY ANNOUNCES FINANCING PLANS

The Treasury announced today that it will raise $3.0 billion by auctioning a "strip" of bills consisting of additions to fifteen outstanding weekly series of Treasury bills. The reopened bills are those which mature March 30 to July 6, 1972, inclusive. They will be reopened in the amount of $200 million each -- a total of $3.0 billion.

The Treasury noted that the issuance of this amount of securities is possible under the existing debt limit because of an anticipated drop in the debt on the last day of February, but that this borrowing and additions to the debt as trust-fund receipts are invested in early March will raise the debt to the limit by mid-March.

The auction will be on Wednesday, March 1, with payment on Monday, March 6. Commercial banks may make payment for 50% of their own and their customers' accepted tenders by credit to Treasury tax and loan accounts.

The Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE W04-2041

FOR IMMEDIATE RELEASE February 24, 1972

TREASURY OFFERS $3.0 BILLION STRIP OF BILLS

The Treasury Department, by this public notice, invites tenders for additional amounts of 15 series of Treasury bills to the aggregate amount of $3,000,000,000, or thereabouts, for cash. The additional bills will be issued March 6, 1972, will be in the amounts, and will be in addition to the bills originally issued and maturing, as follows:

Amount of Additional Issue	Original Issue Dates	Maturity Dates 1972	CUSIP Nos.	Days from March 6, 1972, to Maturity	Amount Currently Outstanding (in millions)
$ 200,000,000	Sept. 30, 1971	Mar. 30	912793 MU7	24	$ 3,903
200,000,000	Oct. 7, 1971	Apr. 6	912793 MV5	31	3,901
200,000,000	Oct. 14, 1971	Apr. 13	912793 MW3	38	3,903
200,000,000	Oct. 21, 1971	Apr. 20	912793 MX1	45	3,901
200,000,000	Oct. 28, 1971	Apr. 27	912793 MY9	52	3,902
200,000,000	Nov. 4, 1971	May 4	912793 MZ6	59	3,902
200,000,000	Nov. 11, 1971	May 11	912793 NA0	66	3,901
200,000,000	Nov. 18, 1971	May 18	912793 NB8	73	4,007
200,000,000	Nov. 26, 1971	May 25	912793 NC6	80	4,001
200,000,000	Dec. 2, 1971	June 1	912793 ND4	87	1,601
200,000,000	Dec. 9, 1971	June 8	912793 NE2	94	1,601
200,000,000	Dec. 16, 1971	June 15	912793 NF9	101	1,600
200,000,000	Dec. 23, 1971	June 22	912793 NG7	108	1,602
200,000,000	Dec. 30, 1971	June 29	912793 NH5	115	1,601
200,000,000	Jan. 6, 1972	July 6	912793 NT9	122	1,601
$3,000,000,000			Average ...	73	

The additional and original bills will be freely interchangeable.

Each tender submitted must be in the minimum amount of $150,000. Tenders over $150,000 must be in multiples of $75,000. One-fifteenth 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).

(OVER)

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Standard time, Wednesday, March 1, 1972. 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.

Banking institutions generally may submit tenders for account of customers provi the names of the customers are set forth in such tenders. Others than banking instit tions 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 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 incorporat 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 1, 1972.

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. Sub to these reservations, noncompetitive tenders for $300,000 or less (in amounts as set forth in the second paragraph) without stated price from any one bidder will be accept in full at the average price (in three decimals) of accepted competitive bids. Settle for accepted tenders in accordance with the bids must be made or completed at the Fede Reserve Bank in cash or other immediately available funds on March 6, 1972. Any quali depositary will be permitted to make settlement by credit in its Treasury tax and loan account for not more than 50 percent of the amount of Treasury bills allotted to it fo itself and its customers.

Under Sections 454 (b) and 1221 (5) of the Internal Revenue Code of 1954 the amou 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. Purchasers of a strip of the bills offered hereunder should, for tax purposes, such bills on to their books on the basis of their purchase price prorated to each of 15 outstanding issues using as a basis for proration the closing market prices for eac of the issues on March 6, 1972. (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, prescrib the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

The Department of the TREASURY

WASHINGTON, D.C 20220 TELEPHONE W04-2041

NEWS

MEMORANDUM TO CORRESPONDENTS February 24, 1972

Attached is a letter delivered today to the President of the Senate which transmits a proposed bill to preserve the nature of coastal wetland areas by generally reducing the Federal income tax benefits related to investments and improvements in those areas. A similar letter was delivered to the Speaker of the House. Also attached is a copy of the bill.

Attachments

THE SECRETARY OF THE TREASURY
WASHINGTON

FEB 24 1972

Dear Mr. President:

In accordance with the President's Message of February 8, 1972, with respect to environmental legislation, I am enclosing a draft bill entitled the "Environmental Protection Tax Act of 1972", along with a section-by-section analysis, for consideration by the Congress.

The proposed legislation is designed to preserve the nature of our coastal wetland areas by generally reducing the Federal income tax benefits related to investments and improvements in those areas. The bill would additionally encourage greater rehabilitation, rather than demolition, of older buildings in our urban areas. The legislation is similarly designed to make restoration of historic structures more appealing to private investors. Finally, the bill modifies certain restrictions on the deductibility of charitable gifts of partial interests in land to be used for conservation purposes.

These proposals are described in more detail in the accompanying materials. It would be appreciated if you would lay the proposed legislation before the Senate. A similar communication has been addressed to the Speaker of the House of Representatives.

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,

John B. Connally

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

Enclosures

A BILL

"To amend the Internal Revenue Code of 1954 to encourage the preservation of coastal wetlands, open space and historic buildings and to encourage the preservation and rehabilitation of all structures, and for other purposes.

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

TITLE I. SHORT TITLE, ETC.

Sec. 101. SHORT TITLE.--This Act may be cited as the "Environmental Protection Tax Act of 1972."

Sec. 102. 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.

TITLE II. PRESERVATION OF COASTAL WETLANDS

Sec. 201. DEPRECIATION OF IMPROVEMENTS ON HISTORIC SITES AND IN COASTAL WETLANDS.

(a) Section 167 (relating to depreciation) is amended by redesignating subsection "n" as subsection "p", and by inserting after subsection "m" the following new subsection:

"(n) Straight line method in certain cases.

(1)--In General. In the case of any property in whole or in part constructed, reconstructed, erected, or used--

(A) in coastal wetlands (as defined in section 7701(a) (35)), or

(B) on a site which was, on or after February 8, 1972, occupied by a certified historic structure (as defined in section 189(d)(1)) which is demolished or substantially altered (other than by virtue of a certified rehabilitation as defined in section 189(d)(2)) after such date,

subsections (b), (j), (k), and (l) shall not apply, and the term "reasonable allowance" as used in subsection (a) shall mean only an allowance computed under the straight line method.

(2) Exception. The limitations imposed by this subsection shall not apply to property which is not affixed to land or improvements, or to property which is a certified coastal wetlands improvement (as defined in section 7701(a)(36))."

(b) The amendment made by this section shall apply to property placed in service after December 31, 1972.

Sec. 202. RECAPTURE ON DISPOSITION OF PROPERTY--Section 1245 (relating to gain from disposition of certain depreciable property) is amended as follows:

(a) In section 1245(a)(2) strike out "or" at the end of subparagraph (C); delete the period and insert "or" at the end of subparagraph (D); and immediately thereafter add a new subparagraph (E) to read as follows:

"(E) with respect to any property referred to in paragraph (3)(E), its adjusted basis recomputed by adding thereto all adjustments"

(b) In section 1245(a)(3), strike out "or" at the end of subparagraph (C), delete the period and insert ",or" at the end of subparagraph (D), and immediately thereafter add a new subparagraph (E) to read as follows:

"(E) property placed in service in coastal wetlands after December 31, 1972 (other than certified coastal wetlands improvements)."

Sec. 203. SOIL AND WATER CONSERVATION EXPENDITURES AND LAND CLEARING EXPENDITURES.

(a) Section 175(c)(1) (relating to soil and water conservation expenditures) is amended--

(1) by striking out "or" at the end of subparagraph (A), by striking out "section" and inserting in lieu thereof, "section, or" at the end of subparagraph (B), and by inserting immediately after subparagraph (B) a new subparagraph (C) to read as follows:

"(C) any amount paid or incurred with respect to coastal wetlands (other than amounts paid or incurred with respect to certified coastal wetlands improvements)."

(2) by striking out "preceding sentences." in the flush material immediately following new subparagraph (C) and inserting in lieu thereof, "preceding sentences, except as provided in subparagraph (C)."

(b) Section 182(d)(1) (relating to expenditures by farmers for clearing land) is amended by striking out "or" at the end of subparagraph

(A), by striking out "section" and inserting in lieu thereof "section, or" at the end of subparagraph (B), and by adding a new subparagraph (C) at the end thereof to read as follows:

"(C) any amount paid or incurred with respect to coastal wetlands (other than amounts paid or incurred with respect to certified coastal wetlands improvements)."

(c) The amendments made by this section shall apply to taxable years beginning after December 31, 1972.

Sec. 204. CARRYING CHARGES ON COASTAL WETLANDS PROPERTY. (a) Part IX of subchapter B of Chapter 1 (relating to items not deductible) is amended by adding after section 279 the following new section:

"Sec. 280. Carrying Charges on Coastal Wetlands Property.

(1) In general.--Deductions for the taxable year of amounts otherwise allowable under section 163 or 164, or under section 162 to the extent such amounts would also have been allowable under section 163 or 164, which are attributable to land under development and associated improvements in the coastal wetlands (other than land and associated improvements which are certified coastal wetlands improvements) shall be allowed only to the extent of net income derived from such coastal wetlands. If for any taxable year such deductions exceed such income, the excess shall be charged to capital account.

"(2) Net income from coastal wetlands.--For purposes of this section, "net income from coastal wetlands" means gross income for the taxable year derived from land under development, and

associated improvements in the coastal wetlands (other than land and associated improvements which are certified coastal wetlands improvements), reduced by all deductions directly connected with the production of such income, other than items of deduction described in section 163 or 164."

(b) The amendment made by this section shall apply to taxable years beginning after December 31, 1972.

(c) The table of sections for Part IX of subchapter B of Chapter 1 is amended by adding at the end thereof:

"Sec. 280. Carrying Charges on Coastal Wetlands Property."

Sec. 205. DEFINITION OF COASTAL WETLANDS. Section 7701(a) (relating to definitions) is amended by adding after paragraph (34) the following new paragraph:

"(35) Coastal Wetlands.--The term "coastal wetlands" means those areas of open water, marsh, swamp, or other coastal wetlands which--

(A) correspond to Types 12 through 20 identified in Circular 39 of the Fish and Wildlife Service, U. S. Department of the Interior,

(B) are of biological significance due to their production of or capacity to produce vegetation and other types of living organisms important to the maintenance of the ecology of the coastal zone,

(C) are influenced by tidal water, and

(D) lie shoreward within the territorial sea of the three fathom depth line as shown on National Oceans Survey Marine Charts,

and which are certified to the Secretary or his delegate as falling within the above definition by the Secretary of the Interior with the approval of the Secretary of Commerce.

(b) Certified Coastal Wetlands Improvements. Section 7701(a) (relating to definitions) is amended by adding after paragraph (35) the following new paragraph:

"(36) Certified Coastal Wetlands Improvement--The term "certified coastal wetlands improvement" means any improvement, change or other alteration to coastal wetlands which the Secretary of the Interior, with the approval of the Secretary of Commerce, has certified to the Secretary or his delegate--

(A) as not being in conflict with applicable regulations of Federal and state agencies relating to the protection of the coastal wetlands, and

(B) as not requiring an environmentally undesirable degree of draining, dredging or filling in the coastal wetlands affected."

TITLE III - HISTORIC PRESERVATION

Sec. 301. AMORTIZATION OF REHABILITATION EXPENDITURES. (a) Part VI of subchapter B of Chapter 1 (relating to itemized deductions) is amended by adding at the end thereof the following new section:

"Sec. 189--Amortization of Certain Rehabilitation Expenditures for Certified Historic Structures--

"(a) Allowance of Deduction.--Every person at his election, shall be entitled to a deduction with respect to the amortization of the amortizable basis of any certified historic structure (as defined in subsection (d)) based on a period of 60 months. Such

amortization deduction shall be an amount, with respect to each month of such period within the taxable year, equal to the amortizable basis at the end of such month divided by the number of months (including the month for which the deduction is computed) remaining in the period. Such amortizable basis at the end of the month shall be computed without regard to the amortization deduction for such month. The amortization deduction provided by this section with respect to any month shall be in lieu of the depreciation deduction with respect to such basis for such month provided by section 167. The 60-month period shall begin, as to any historic structure, at the election of the taxpayer, with the month following the month in which the basis is acquired, or with the succeeding taxable year.

"(b) Election of Amortization.--The election of the taxpayer to take the amortization deduction and to begin the 60-month period with the month following the month in which the basis is acquired, or with the taxable year succeeding the taxable year in which such basis is acquired, shall be made by filing with the Secretary or his delegate, in such manner, in such form, and within such time, as the Secretary or his delegate may by regulations prescribe, a statement of such election.

"(c) Termination of Amortization Deduction.--A taxpayer who has elected under subsection (b) to take the amortization deduction provided in subsection (a) may, at any time after making such election, discontinue the amortization deduction with respect to the remainder of the amortization period, such discontinuance to

begin as of the beginning of any month specified by the taxpayer in a notice in writing filed with the Secretary or his delegate before the beginning of such month. The depreciation deduction provided under section 167 shall be allowed, beginning with the first month as to which the amortization deduction does not apply, and the taxpayer shall not be entitled to any further amortization deduction under this section with respect to such certified historic structure.

"(d) Definitions.--For purposes of this section--

"(1) Certified historic structure. The term "certified historic structure" means a building or structure subject to the allowance for depreciation provided in Section 167 which--

(A) is listed in the National Register, or

(B) is located in a Registered Historic District and is certified by the Secretary of the Interior or his delegate as being of historic significance to the District.

"(2) Certified rehabilitation. The term "certified rehabilitation" means any rehabilitation of a certified historic structure or of any other structure located in a Registered Historic District, which the Secretary of the Interior or his delegate has certified as being consistent with the historic character of such property or district.

"(3) Amortizable basis. The term "amortizable basis" means the portion of the basis attributable to additions to capital account which--

(i) are amounts expended for certified rehabilitation, and

(ii) are described in section 167(o)(2).

"(e) Depreciation deduction.--The depreciation deduction provided by section 167 shall, despite the provisions of subsection (a), be allowed with respect to the portion of the adjusted basis which is not the amortizable basis.

"(f) Life Tenant and Remainderman.--In the case of property held by one person for life with remainder to another person, the deduction under this section shall be computed as if the life tenant were the absolute owner of the property and shall be allowable to the life tenant.

"(g) Cross Reference.--(1) For rules relating to the listing of buildings and structures in the National Register and for definitions of "National Register" and "Registered Historic District", see section 470 et seq. of Title 16 of the United States Code.

(2) For special rule with respect to certain gain derived from the disposition of property the adjusted basis of which is determined with regard to this section, see section 1238."

(b) Gain on disposition of registered structures. Section 1238 (relating to amortization in excess of depreciation) is amended to read

as follows:

"Sec. 1238. Amortization in excess of Depreciation.--Gain from the sale or exchange of property, to the extent that the adjusted basis of such property is less than its adjusted basis determined without regard to section 168 or 189, shall be considered as ordinary income."

(c) Conforming Amendment --

(1) The table of sections for Part VI of subchapter B of Chapter 1 is amended by inserting at the end thereof the following new item.

"Sec. 189. Amortization of rehabilitation expenditures on certified historic structures."

(2) The heading and first sentence of section 642(f) (relating to special rules for credits and deductions of estates and trusts) are amended to read as follows:

"(f) Amortization deductions.--The benefit of the deductions for amortization provided by sections 168, 169, 184, 187, 188, and 189 shall be allowed to estates and trusts in the same manner as in the case of an individual.

(3) Section 1082(a)(2)(B) (relating to basis for determining gain or loss) is amended by striking out "or 188;" and inserting in lieu thereof "188, or 189;".

(4) Section 1250(b)(3) (relating to depreciation adjustments) is amended by striking out "or 189)." and inserting in lieu thereof "188, or 189)."

(d) Effective date.--The amendments made by this section shall apply with respect to additions to capital account made after February 8, 1972.

Section 302. DEMOLITION.

(a) Disallowance of Deductions. Part X of subchapter B of Chapter 1 (relating to terminal railroad corporations and their shareholders) is amended by redesignating section 281 as section 291 and part IX of such subchapter (relating to items not deductible) is amended by adding after section 280 the following new section:

"Sec. 281. Demolition of Certain Historic Structures.

"(a) General Rule. In the case of the demolition of a certified historic structure described in section 189(d)(1) (but without regard to paragraph (C) of that section)--

"(1) no deduction otherwise allowable under this chapter shall be allowed to the owner or lessee of such structure for--

"(A) any amount expended for such demolition, or

"(B) any loss sustained on account of such demolition.

"(2) Amounts described in paragraph (1) shall be treated as property chargeable to capital account with respect to the land on which the demolished structure was located.

"(b) Special Rule for Registered Historic Districts. For purposes of this section, any building or other structure located in a Registered Historic District shall be treated as a "certified historic structure" unless the Secretary of the

Interior or his delegate has certified, prior to the demolition of such structure, that such structure is not of historic significance to the District."

(b) Effective Date.--The amendments made by this section shall apply with respect to demolitions commencing after the date of enactment of this bill.

(c) Conforming Amendments.

(1) The table of sections for part X of subchapter B of chapter 1 (relating to terminal railroad corporations and their shareholders) is amended by redesignating "Sec. 281" as "Sec. 291".

(2) The table of sections for part IX of subchapter B of chapter 1 (relating to items not deductible) is amended by adding at the end thereof the following new item:

"Sec. 281. Demolition of Certain historic structures."

TITLE IV - REHABILITATION

Sec. 401. SUBSTANTIALLY REHABILITATED PROPERTY. (a) Section 167 (relating to depreciation) is amended by inserting after subsection (n) the following new subsection:

"(o) Substantially Rehabilitated Property.

"(1) General Rule.--Pursuant to regulations prescribed by the Secretary or his delegate, the taxpayer may elect to compute the depreciation deduction attributable to substantially rehabilitated property as though the original use of such property commenced with him.

"(2) Substantially rehabilitated property.--The term "substantially rehabilitated property" means property which is of a character subject to the allowance for depreciation under

section 167, and is property described in section 1250 with respect to which the additions to capital account during the 24-month period ending on the last day of any taxable year, reduced by any amounts allowed or allowable as depreciation or amortization allowable thereto, exceeds the greater of--

(A) the adjusted basis of such property, or

(B) $5,000.

The adjusted basis of the property shall be determined as of the beginning of the first day of such 24-month period, or of the holding period of the property (within the meaning of section 1250(c)), whichever is later."

(b) Effective Date. The amendment made by this section shall apply with respect to additions to capital account occurring after June 30, 1973.

TITLE V. CHARITABLE TRANSFERS FOR CONSERVATION PURPOSES.

Section 501. TRANSFERS OF PARTIAL INTERESTS IN PROPERTY FOR CONSERVATION PURPOSES.

(a) Income tax deductions for charitable contributions of partial interests in property for conservation purposes.--Sec. 170(f)(3) (relating to charitable contributions) is amended--

(1) by striking out "or" at the end of subparagraph (b)(i),

(2) by striking out "property.", at the end of subparagraph (b)(ii) and inserting in lieu thereof "property,"

(3) by adding after clause (ii) of subparagraph (b) the following new clauses:

"(iii) a lease on, option to purchase, or easement with respect to real property of not less than 15 years duration granted to an organization described in subsection (b)(1)(A) exclusively for conservation purposes, or

"(iv) a remainder interest in real property which is granted to an organization described in subsection (b)(1)(A) exclusively for conservation purposes." and

(4) by adding at the end thereof the following new subparagraph:

"(C) Conservation Purposes Defined.--For purposes of subparagraph (B), the term "conservation purposes" means--

(i) the preservation of land areas for public outdoor recreation or education, or scenic enjoyment;

(ii) the preservation of historically important land areas or structures; or

(iii) the protection of natural environmental systems."

(b) Estate Tax Deduction for Transfers of Partial Interests in Property for Conservation Purposes.--Section 2055(e)(2) (relating to deductions from gross estate) is amended by striking out "(other than a remainder interest in a personal residence or farm or an undivided portion of the decedent's entire interest in property)" and inserting in lieu thereof "(other than an interest described in § 170(f)(3)(B))."

(c) Gift tax deduction for transfers of partial interests in property for conservation purposes.--Section 2522(c)(2) (relating to deductions from taxable gifts) is amended by striking out "(other than

a remainder interest in a personal residence or farm or an undivided portion of the donor's entire interest in property)" and inserting in lieu thereof "(other than an interest described in § 170(f)(3)(B))".

(d) Effective date.--The amendments made by this section shall apply with respect to contributions and transfers made after February 8, 1972.

ENVIRONMENTAL PROTECTION TAX ACT OF 1972

TITLE I SHORT TITLE, ETC.

Title I labels the Act as the "Environmental Protection Tax Act of 1972," and specifies that all amendments contained in the Act are amendments to the Internal Revenue Code.

TITLE II PRESERVATION OF COASTAL WETLANDS

Section 201

Section 201 adds a new subsection (n) to section 167 of the Code, providing that the depreciation deduction for property constructed, reconstructed or erected in the coastal wetlands may be computed only by use of the straight-line method of depreciation. A similar rule is applied in the case of buildings constructed on sites where a registered historic structure has been demolished.

The limitation of depreciation methods will apply with respect to property placed in service after December 31, 1972.

Section 202

Section 202 amends section 1245 of the Code to provide that gain on the disposition of improvements located in coastal wetlands will be treated as ordinary income to the extent of all depreciation deductions claimed with respect to such improvements. This amendment will apply to dispositions of property placed in service in the coastal wetlands after December 31, 1972.

Section 203

Section 203 of the bill adds a new subparagraph C to sections 175(c)(1) and 182(d)(1) of the Code, providing, in effect, that certain land clearing expenditures and certain soil and water conservation expenditures (such as expenses for draining, dredging or filling) with regard to coastal wetlands are not deductible under the special rules of Code sections 175 and 182. Thus, these expenses would have to be capitalized.

Disallowance of deductions for these expenditures would apply to taxable years beginning after December 31, 1972.

Section 204

Section 204 of the bill adds a new section 280 to the Code, providing in effect that no deduction for interest and taxes will be allowed where it is attributable to land under development and associated improvements in the coastal wetlands. However, these deductions would be allowed to the extent of any income derived from such coastal wetlands. The amount of such disallowed deductions is to be charged to the capital account.

This section will apply to taxable years beginning after December 31, 1972.

Section 205

Section 205 of the bill defines coastal wetlands as areas of open water, marsh, swamp, etc., corresponding to types 12 through 20 in Circular No. 39 of the Fish and Wildlife Service of the U.S. Department of Interior, which are of biological significance, are influenced by tidal water, and which lie shoreward within the territorial sea of the three fathom depth line as shown on National Oceans Survey Marine Charts. It is further provided that the Secretary of the Interior, after consultation with the Secretary of Commerce, will provide the Secretary of the Treasury with a detailed description (in the form of maps) of lands which fall within this definition.

Section 205 also defines certified wetlands improvements which will be exempt from the provisions of the Act. Certification requires a finding by the Secretaries of the Interior and Commerce that the improvement does not conflict with gulations and does not require an environmentally undesirable degree of draining, dredging, or filling.

TITLE III HISTORIC PRESERVATION

Title III contains provisions intended to encourage preservation of historic buildings and structures certified by the Secretary of the Interior as registered or qualified for registration on the National Registry. In addition to the provisions of Title III, Section 201 of the Bill limits depreciation to the straight-line method in the case of buildings constructed on sites which were formerly occupied by demolished historic structures.

Section 301

Section 301 adds a new section 189 to the Code, permitting a 5-year write-off of rehabilitation expenditures incurred with respect to historic structures which are used in the taxpayer's trade or business or held for the production of income provided that property acquired in connection with such expenditure is otherwise eligible for the depreciation allowance.

On the disposition of a certified historic structure, gain would be treated as ordinary income to the extent that the special write-off provided under this section exceeded the depreciation deduction which would have otherwise been allowable (without regard to this provision) This section would apply with respect to all expenditures made after February 8, 1972.

Section 302

Section 302 would add a new section 281 to the Code (while re-designating the present section 281 as section 291). Under the new section 281, no deduction would be allowed for amounts expended in the demolition of a registered historic structure, or for the undepreciated cost of such a structure. Both items would have to be allocated to the basis of the land. The section would apply to all demolitions occurring after the date of enactment.

TITLE IV REHABILITATION

Section 401

Section 401 would add a new subsection (o) to the general depreciation rules of section 167 Under this new provision, if a taxpayer substantially rehabilitated depreciable property, he would be permitted to elect to compute depreciation with respect to his pre-existing basis in the building as though the entire structure was first placed in service by him. This will permit a taxpayer who purchases a used building and rehabilitates it to utilize so-called accelerated methods of depreciation, a privilege which is not now accorded taxpayers under the law.

In order to qualify for this special treatment, the amounts added to capital account during a 24-month period must be at least $5,000 in amount and must be greater than the undepreciated cost of the property, determined at the beginning of the 24-month period.

The provision is effective with respect to such expenditures incurred after June 30, 1973.

TITLE V CHARITABLE TRANSFERS FOR CONSERVATION PURPOSES

Title V provides several amendments to the charitable contribution provisions in section 170 of the Code, the effect of which is to permit a charitable contribution deduction for certain types of transfers which are not presently allowed under the law. Specifically, section 501(a) provides that a charitable deduction will not be denied on the transfer of a partial interest in property, where the interest is either an easement of 15 or more years duration granted exclusively for conservation purposes, or is a remainder interest in real property which is granted exclusively for conservation purposes. "Conservation purposes" mean the preservation of open land areas for public outdoor recreation or education, or scenic enjoyment; the preservation of historically important land areas or structures; or the protection of natural environmental systems.

These amendments would apply with respect to contributions made after February 8, 1972.

The Department of the TREASURY
WASHINGTON, 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 FINANCE
MONDAY, FEBRUARY 28, 1972, 10:00 A.M.

Mr. Chairman and Members of this distinguished Committee:

Your Committee is familiar with the general outline of the subject to be discussed here today and I will therefore keep my statement as brief as possible.

The temporary debt limit of $430 billion which the Congress last year provided the Treasury will soon be exhausted. Anticipating a need for an increase in Treasury borrowing authority, I appeared on January 31 before the House Ways and Means Committee to request that the temporary debt ceiling be increased by $50 billion to $480 billion through June 30,1973. On the basis of our projections, this increase would have been adequate to meet our requirements through early 1973.

On February 9, the House passed H.R. 12910 which provides for a $20 billion temporary increase in the debt limit to $450 billion through June 30, 1972. Although the House of Representatives did not approve our request for the larger $50 billion increase,

H.R. 12910 will meet our estimated needs through June 30 of this year. It is therefore a satisfactory resolution of the current need, assuming the Congress wishes to deal with this matter again before mid year. We therefore specifically request that your Committee and the Senate Act as a matter of urgency to approve H.R. 12910 as passed by the House, raising the temporary debt limit to $450 billion through June 30, 1972.

As background for this request, the President's budget projects, on the unifed budget basis, a deficit of $38.8 billion for fiscal 1972 and a deficit of $25.5 billion for fiscal 1973.

These are huge deficits and no one can be happy about them. However, Federal budgets must be analyzed in the context of economic conditions and national objectives. The pace of our economic growth, while now substantial, has not been fast enough to produce the desired reduction in unemployment. Our objective therefore is to stimulate economic growth -- sustainable economic growth -- in order to reduce unemployment, while at the same time continuing to brake inflation.

We believe that the spending and taxing decisions set forth in the budget are appropriate in the light of present circumstances and objectives. Moreover, if this plan is carried out with discipline and determination, it will help lead to an improved budget position as we achieve our national goals.

Our fiscal 1972 budget deficit, projected at $38.8 billion, is substantially higher than the original estimate of $11.6 billion made in January 1971. The figures represent an adverse swing of $27.2 billion. The major portion of the change -- $19.8 billion of it -- results from a shortfall in estimated revenues. Some of this shortfall, $6.7 billion, reflects tax changes not contemplated in the budget a year ago. But apart from the consequences of legislation, our economic forecast for calendar 1971 -- on which the fiscal 1972 budget was based -- was simply too optimistic. Total GNP, personal income and corporate profits were all significantly below forecast. As a result, tax collections are falling short in most categories including the big items: personal and corporate income taxes.

On the expenditures side, we are projecting in the current fiscal year expenditures of $236.6 billion or $7.4 billion above the original estimate.

For fiscal 1973, we are estimating outlays of $246.3 billion, only 4% higher than this year. At the same time, revenues are anticipated to rise to $220.8 billion, which results in a unified budget deficit of $25.5 billion.

This budget will return us to a "full employment" balance. In other words, budget expenditures are set at a level which is about equal to the revenues our present tax structure would produce at "full employment" of our economic resources. While actual full employment is not a realistic expectation for fiscal 1973, if expenditures can be held on this path, the deficit will shrink as the economy grows, and will disappear when we fully achieve our goals.

The size of the debt ceiling increase needed is determined not only by the results of the Unified Budget (which reflects transactions with the general public) but also by the amount of Treasury debt held by the Federal trust funds and other Government agencies. Since the trust funds are in substantial surplus and therefore acquiring Treasury debt, the necessary increase must be in excess of the size of the Unified Budget deficit. Changes in the debt are more closely reflected in the so-called Federal Funds Budget -- which excludes the operations of the trust funds.

As the budget document shows, the Federal fund deficits for fiscal 1972 and 1973 are now estimated at $44.7 billion and $36.2 billion, respectively. As shown in Tables I and II, these forecasts can be translated into estimated Federal debt subject to limitation. On the assumption of a constant six billion cash balance, our peak fiscal 1972 level is $450 billion.

For this reason, H.R. 12910, setting a new temporary debt limit at $450 billion for the period through June 30, 1972, is fully acceptable to us. It should be recognized that this ceiling provides no allowance for unanticipated contingencies, and will meet our requirements only through June of 1972.

I shall not belabor the consequences for the Nation if the Treasury's borrowing capacity should be exhausted. A failure to obtain an increase in the debt limit will in a very short time force us to move to costly and uneconomic expedients to meet our obligations, and then to an abrupt cutting off of Government expenditures. As responsible public officials, we do not wish to contemplate such a possibility. Therefore, as our projections indicate, it is essential that the Senate take action to lift the debt limit in time for us to meet our early March borrowing requirements.

In the context of this review of our debt situation, I would also like to emphasize the importance of setting an effective lim on budget expenditures. It is the firm policy of this Administration, as enunciated by the President in his Budget Message tha "Except in emergency conditions, expenditures should not exceed the level at which the budget would be balanced under conditions of ull employment." This concept of a full employment balance was central to the budget decisions for fiscal 1973. Its meaning is simple. If one adheres to that objective, our deficits will disappear as the slack in the economy disappears.

Success in this effort is essential if our progress against inflation is not to be jeopardized. The result can and will be achieved by exercising vigorous restraint on spending. Our deficits must be reduced

I believe a tight, effective, overall limit on expenditures, binding on both the Executive Branch and the Congress would help assure that goal.

Mr. Chairman, as in previous years we are furnishing your committee with updated statistical tables which relate Federal Debt to GNP, private debt, population and prices.

TABLE I

PUBLIC DEBT SUBJECT TO LIMITATION

FISCAL YEAR 1972
($ Billions)

1971	Operating Cash Balance	Public Debt Subject to Limitation
	ACTUAL	
June 30	8.7	399.5
July 15	7.3	407.3
July 30	7.1	406.6
August 16	4.6	410.8
August 31	9.4	415.9
September 15	5.5	416.2
September 30	9.9	413.6
October 15	4.6	413.9
October 29	6.5	413.3
November 15	4.1	416.5
November 30	4.2	416.0
December 15	5.2	422.2
December 31	11.2	425.5
1972		
January 17	7.4	426.4
January 31	11.1	424.2
February 15	6.4	425.7
	ESTIMATED (Based on constant minimum cash balance of $6.0 billion)	
February 29	6.0	426.1
March 15	6.0	433.6
March 31	6.0	431.6
April 17	6.0	440.3
April 28	6.0	432.3
May 15	6.0	440.8
May 31	6.0	442.1
June 15	6.0	450.0
June 30	6.0	443.4

TABLE II

ESTIMATED PUBLIC DEBT SUBJECT TO LIMITATION

FISCAL YEAR 1973
($ Billions)

1972	Debt with $6.0 cash balance	With $3.0 margin for contingencies
June 30	443.4	446.4
July 17	450.0	453.0
July 31	453.0	456.0
August 15	457.5	460.5
August 31	461.1	464.1
September 15	462.3	465.3
September 29	457.9	460.9
October 16	461.0	464.0
October 31	462.1	463.1
November 15	466.3	469.3
November 30	468.7	471.7
December 15	469.7	472.7
December 29	469.8	472.8
1973		
January 15	470.8	473.8
January 31	470.6	473.6
February 15	475.3	478.3
February 28	478.1	481.1
March 16	483.1	486.1
March 30	482.5	485.5
April 16	484.5	487.5
April 30	478.2	481.2
May 15	483.8	486.8
May 31	486.8	489.8
June 15	486.0	489.0
June 29	479.3	482.3

January 19, 1972

(OVER)

TABLE III

Budget Receipts, Outlays and Surplus or Deficit (-) By Fund

	Fiscal Year		
	1971 (actual)	1972 (estimated)	1973 (estimated)
	(in billions)		
Receipts			
Trust Funds	66.2	73.2	83.2
Federal Funds	133.8	137.8	150.6
Deduct: Intragovernmental Receipts	-11.6	-13.1	-13.0
Total Unified Budget	188.4	197.8	220.8
Outlays			
Trust Funds	59.3	67.2	72.5
Federal Funds	163.7	182.5	186.8
Deduct: Intragovernmental Outlays	-11.6	-13.1	-13.0
Total Unified Budget	211.4	236.6	246.3
Budget Surplus (+) or Deficit (-)			
Trust Funds	+6.9	+5.9	+10.7
Federal Funds	-29.9	-44.7	-36.2
Total Unified Budget	-23.0	-38.8	-25.5

TABLE IV

Unified Budget Receipts
Outlays and Deficits (-)

($ billions)

	Fiscal Year 1972					
	January 1971 estimate	Change to September 1971 estimate	September 1971 estimate	Change to January 1972 estimate	January 1972 estimate	Change to January 1972 over January 1971
Receipts	217.6	-13.1	204.5	-6.6	197.8	-19.8
Outlays	229.2	+ 2.8	232.0	+4.6	236.6	+ 7.4
Deficit (-)	-11.6	-15.9	-27.5	-11.2	-38.8	-27.2

Office of the Secretary of the Treasury
Office of Tax Analysis

January 19, 1972

Note: Figures are rounded and may not necessarily add to totals.

Changes in estimates of Fiscal Year 1972 Receipts from January 1971 Budget Document

($ Billions)

	January 1971 budget	Change to September Estimate: Economic and re-estimate	Change to September Estimate: Legislation	Change to September Estimate: Other 1/	Change to September Estimate: Total	September 1971 Estimate	Change to January 1972 Budget: Economic and re-estimate	Change to January 1972 Budget: Legislation	Change to January 1972 Budget: Other 1/	Change to January 1972 Budget: Total	January 1972 budget
Individual income tax	93.7	-2.4	-1.3	+0.7	-3.0	90.7	-1.1	-0.6	-2.5	-4.2	86.5
Corporation income tax	36.7	-4.6	-2.2	--	-6.8	29.9	-2.0	+2.2	--	+0.2	30.1
Employment taxes and contributions	50.2	-0.8	-1.7	--	-2.5	47.7	-0.4	-0.9	--	-1.3	46.4
Unemployment insurance	4.2	--	--	--	--	4.2	--	--	+0.2	+0.2	4.4
Contributions for other insurance and retirement	3.2	--	--	--	--	3.2	--	--	+0.2	+0.2	3.4
Excise taxes	17.5	-0.1	-2.2	--	-2.3	15.2	+0.3	-0.3	--	--	15.2
Estate and gift taxes	5.3	-0.1	--	--	-0.1	5.2	--	--	--	--	5.2
Customs duties	2.7	-0.1	+1.7	--	+1.6	4.3	+0.1	-1.2	--	-1.1	3.2
Miscellaneous receipts	4.1	--	--	--	--	4.1	--	-0.2	-0.4	-0.6	3.5
Total budget receipts	217.6	-8.1	-5.7	+0.7	-13.1	204.5	-3.1	-1.0	-2.5	-6.6	197.8

Underlying Income Assumptions - Calendar Year 1971

	January 1971 budget	January 1972 budget
GNP	1065	1047
Personal income	868	857
Corporate profits before tax .	98 2/	85 3/

Office of the Secretary of the Treasury
Office of Tax Analysis

January 28, 1972

1/ Change in capital gains tax estimate.

2/ Before the effect of ADR.

3/ After the effect of ADR. Before the effect of ADR, the estimate would be $85.9 billion.

Note: The figures are rounded and may not necessarily add to totals.

TABLE VI

Comparison of Fiscal Year 1972 Receipts -- as Estimated in January 1971 and in January 1972

($ billions)

	January 1971 budget	Change to January 1972 Budget: Economic and re-estimate	Legislation	Other 1/	Total	January 1972 budget
Individual income tax	93.7	-3.5	-1.9	-1.8	-7.2	86.5
Corporation income tax	36.7	-6.6	--	--	-6.6	30.1
Employment taxes and contributions	50.2	-1.2	-2.6	--	-3.8	46.4
Unemployment insurance	4.2	--	--	+0.2	+0.2	4.4
Contributions for other insurance and retirement	3.2	--	--	+0.2	+0.2	3.4
Excise taxes	17.5	+0.2	-2.5	--	-2.3	15.2
Estate and gift taxes	5.3	-0.1	--	--	-0.1	5.2
Customs duties	2.7	--	+0.5	--	+0.5	3.2
Miscellaneous receipts	4.1	--	-0.2	-0.4	-0.6	3.5
Total budget receipts	217.6	-11.2	-6.7	-1.8	-19.7	19[illegible]

Underlying Income Assumptions - Calendar Year 1971

	January 1971 budget	January 1972 budget
GNP	1065	1047
Personal income	868	857
Corporate profits before tax .	98 2/	85 3/

Office of the Secretary of the Treasury
Office of Tax Analysis

January 28, 1972

1/ Change in capital gains tax estimate.

2/ Before the effect of ADR.

3/ After the effect of ADR. Before the effect of ADR, the estimate would be $85.9 bill

Note: The figures are rounded and may not necessarily add to totals.

(OVER)

The Department of the TREASURY

WASHINGTON, D.C. 20220 TELEPHONE W04-2041

NEWS

FOR RELEASE ON DELIVERY

STATEMENT OF DAVID MOSSO, COMMISSIONER OF ACCOUNTS
TREASURY DEPARTMENT, BEFORE THE SUBCOMMITTEE ON MANPOWER AND
CIVIL SERVICE OF THE HOUSE COMMITTEE ON POST OFFICE AND
CIVIL SERVICE ON H.R. 13150 TO PROVIDE THAT THE FEDERAL GOVERNMENT
SHALL ASSUME THE RISKS OF ITS FIDELITY LOSSES,
TUESDAY, FEBRUARY 29, 1972, 10:00 A.M.

Mr. Chairman and Members of the Committee, it is a pleasure to appear today on proposed legislation to provide that the Federal Government shall assume the risks of its fidelity losses. As you know, the proposal contained in H.R. 13150 is sponsored by the Treasury Department on behalf of the Joint Financial Management Improvement Program. Thus it has the backing not only of the Treasury Department, but also the other three leadership partners in the Joint Program: The General Accounting Office, the Office of Management and Budget and the Civil Service Commission.

With me today are Steve L. Comings, Comptroller of the Bureau of Accounts and Treasury representative on the Steering Committee for the Joint Financial Management Improvement Program; and Walter Porteous, Assistant Comptroller (Chief Auditor), who is in charge of our surety company examination work.

EFFECT OF PROPOSED LEGISLATION

Briefly, the bill would repeal all statutory requirements for bonding Federal civilian employees and military personnel who are charged with accountability for public funds or public property, and permit the Government to become a self-insurer for fidelity losses. Where losses proved to be uncollectible, agencies could, under regulations issued by the Comptroller General, charge their operating appropriations. We believe that enactment of the bill would save the Government money and would be in accord with the

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general policy of self-insurance that the Government has established for most of its activities.

As submitted to the Congress, the proposed legislation took the approach of a blanket repeal of all statutes presently requiring Federal civilian and military employees to be bonded in the performance of their duties. Your Committee staff felt, however, that legislation would be more meaningful if the specific statutes requiring fidelity bonding were repealed. We concurred in that approach and believe that the bill as presently drafted is a better bill than the one we submitted.

BACKGROUND

The history of fidelity bonding of Federal employees goes back to the early days of our Government and there are many statutory requirements, administrative regulations, and decisions which require that certain individuals or positions throughout the Government be bonded. Before 1955, employees were required to secure their own bonds and to pay the premiums; but in 1955 Public Law 84-323 (6 U.S.C. 14) required the Government to obtain the bonds and to pay the bond premiums for those individuals required to be bonded. The Act required agencies to obtain, under regulations of the Secretary of the Treasury, the most economical type of bond available, usually blanket or position-schedule bonds; and the Secretary of the Treasury was required to report annually to the Congress on the experience of the agencies under the bonding program. This Act, by providing for the Government to purchase bonds for large numbers of employees on a blanket or position-schedule basis, was a vast improvement over the requirement that employees purchase their own bonds, individually. For

example, the premiums on bonds purchased by employees in fiscal year 1955 (the last full fiscal year prior to enactment of Public Law 84-323) totaled over $1.7 million; in fiscal year 1957 (the first full fiscal year after enactment) total premium costs to the Government for fidelity bonds for all employees required to be bonded were $379 thousand. Computed annual premiums from 1957 through 1970 averaged $289 thousand. On June 30, 1971 the computed annual premium dropped to $170 thousand because the Postal Service, under its independent authority, discontinued fidelity bonding.

SELF-INSURANCE

The objective of any self-insurance plan is to save money, based on the expectation that in the long-run the cost of commercial insurance will exceed recoveries from insurance companies on losses. Self insurance makes sense only if the self-insured entity is able to assume the risks--as with the Federal Government.

Precedent for assumption of its own insurable risks exists throughout the Federal Government. We do not contract with insurance companies for coverage of losses from fire, accident or other casualties, for example; and even in the shipment of valuables, such as Federal securities, stamps and currency, the Government has assumed its own losses since 1937 under the Government Losses in Shipment Act. In the financial area, where bonding is prevalent, the risks are minimized because of the extensive system of internal control, including internal audit, that limits the opportunities for fraud in the handling of Government funds.

Looking at the savings under the self-insurance concept, the estimated cost of the bonding program from 1956 through fiscal year 1971 was $5.1 million

and the amount of claims filed during the same period was $3.2 million. The difference of $1.9 million is a rough approximation of the net cost to the Government, although some allowance has to be made for additional claims to be filed and claims that may be denied or withdrawn. The figures on premiums, administrative expenses, claims filed and excess of cost over claims are shown, by year, for the period 1956-71 in this table which we offer for the record, Mr. Chairman. We estimate that additional future savings of over $100,000 annually can be realized by the Government through self-insurance. This estimate is based on the excess of premiums (and administrative expenses of the agencies in procuring the bonds) over claims paid by the companies. In the final analysis, bond premium rates are established at a level that will cover not only the cost of the loss payments but administrative expenses of the companies and an allowance for profits. Therefore, over a period of time, the total cost of coverage for an organization the size of the Federal Government can be expected to exceed the return in terms of indemnification for losses.

The Comptroller General of the United States looked into the subject of fidelity bonding of Federal employees in the past, and in December 1964 indicated that substantial savings would accrue to the Government under a self-insurance program. His recommendation for legislation at that time was not adopted due in part to reservations of the Post Office Department. However, when the Postal Service was recently created, it reevaluated its position in light of the rapid rise in bond premium rates and it took prompt action to eliminate bond coverage and adopt the self-insurance concept. Therefore, part of the savings anticipated when we originally proposed this legislation has already been achieved. The action taken by the Postal Service under its independent authority was motivated by the same considera-

tion that underlies our proposal--anticipated savings.

LIMITED COVERAGE

The fundamental principle of insurance is to protect against large losses. It is common for insurance policies to contain a "deductible" clause which excludes small losses from the coverage of the policy. In that way, the policyholder is a self-insurer for the small run-of-the-mill losses but is protected from large financially-crippling losses. The Federal bonding program is a complete inversion of this fundamental insurance principle. The Government buys insurance to cover the small losses and assumes the risk of large losses itself! Most employees' bonds provide rather limited protection--usually in the range of $2,500 to $25,000, whereas the public funds that these individuals have responsibilities for (in terms of safekeeping or disbursing functions) are many times those amounts. For example, the bond for the Director of our Washington Disbursing Center is set at $25,000; yet annual disbursements in checks signed by the Director total over $25 billion. The cost of increased coverage for positions like this would be impractical in relation to the risk element, but the result is that there is only token coverage in those accountability areas where the potential for the largest monetary losses exists; and this, of course, is tantamount to self-insurance for these areas of maximum exposure.

TREATMENT OF LOSSES

Under the proposed legislation, if and when an agency were faced with an uncollectible fidelity loss stemming from the fault or negligence of an

employee, it would be required to charge its operating appropriation for the full amount of the loss (including those amounts now in excess of bond coverage). The appropriations charged would be the same appropriations that now finance the bond premiums. Agency activities under the proposed legislation would be performed in accordance with regulations of the Comptroller General of the United States to assure compliance with sound principles of internal control. In addition, the Secretary of the Treasury would report to the Congress for each of the five full fiscal years following enactment of the proposed legislation on agency experience under the self-insurance program.

CONCLUSION

In conclusion, we believe that H.R. 13150 represents a modern, realistic approach to sound financial management in this area with significant savings to the Government, and for that reason we believe it worthy of favorable consideration by your Committee.

Thank you Mr. Chairman, that concludes my prepared remarks. We would be happy to respond to any questions.

ESTIMATED COST OF BONDING PROGRAM
1956 - 1971

Year	Premiums Paid	Administrative Expenses	Total Cost	Claims Filed	Excess of Cost Over Claims
1956	$ 154,606	$ 69,736	$ 224,342	$ -0-	$ 224,342
1957	378,858	20,748	399,606	74,203	325,403
1958	297,953	29,506	327,459	126,585	200,874
1959	273,699	26,073	299,772	291,186	8,586
1960	280,298	35,643	315,941	213,080	102,861
1961	287,857	39,110	326,967	216,912	110,055
1962	282,866	45,877	328,743	284,447	44,296
1963	284,576	43,732	328,308	210,261	118,047
1964	232,138	44,288	276,426	216,419	60,007
1965	229,997	45,932	275,929	223,422	52,507
1966	242,808	49,318	292,126	219,002	73,124
1967	244,621	60,750	305,371	112,733	192,638
1968	266,125	71,461	337,586	222,975	114,611
1969	317,646	69,253	386,899	297,779	89,120
1970	425,753	78,581	504,334	302,534	201,800
1971	170,512	92,313	262,825	264,076	(1,251)
Total	$4,370,313	$822,321	$5,192,634	$3,275,614	$1,917,020

SOURCE: Annual reports to the Congress entitled "Reports of Operations in Connection with the Bonding of Government Officers and Employees under the Act of August 9, 1955," as adjusted for certain minor revisions.

The Department of the TREASURY

WASHINGTON, D.C. 20220 TELEPHONE W04-2041

NEWS

ATTENTION: FINANCIAL EDITOR

FOR RELEASE 6:30 P.M., February 28, 1972

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 2, 1971 , and the other series to be an additional issue of the bills dated August 31, 1971, which were offered on February 22, 1972, were opened at the Federal Reserve Banks today. Tenders were invited for $2,400,000,000, or thereabouts, of 91-day bills and for $1,800,000,000, 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 1, 1972		182-day Treasury bills maturing August 31, 1972	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv. Annual Rate
High	99.147	3.375%	98.112	3.735%
Low	99.115	3.501%	98.087	3.784%
Average	99.129	3.446% 1/	98.098	3.762% 1/

31% of the amount of 91-day bills bid for at the low price was accepted
11% 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	$ 25,055,000	$ 15,055,000	$ 11,095,000	$ 1,095,000
New York	2,984,625,000	1,916,545,000	2,835,020,000	1,481,170,000
Philadelphia	27,565,000	12,565,000	12,085,000	8,285,000
Cleveland	24,235,000	24,235,000	53,240,000	18,940,000
Richmond	32,255,000	18,185,000	31,020,000	9,020,000
Atlanta	41,970,000	30,590,000	30,775,000	8,725,000
Chicago	245,005,000	205,005,000	271,965,000	183,135,000
St. Louis	54,430,000	50,360,000	38,700,000	25,200,000
Minneapolis	31,325,000	31,325,000	31,920,000	23,685,000
Kansas City	28,290,000	18,910,000	22,550,000	12,350,000
Dallas	36,085,000	20,085,000	29,065,000	6,565,000
San Francisco	77,905,000	57,455,000	112,780,000	21,890,000
TOTALS	$3,608,745,000	$2,400,315,000 a/	$3,480,215,000	$1,800,060,000 b/

a/ Includes $187,335,000 noncompetitive tenders accepted at the average price of 99.129
b/ Includes $ 83,350,000 noncompetitive tenders accepted at the average price of 98.098
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 3.53% for the 91 -day bills, and 3.89% for the 182-day bills.

The Department of the TREASURY

WASHINGTON, D.C. 20220 TELEPHONE W04-2041

NEWS

FOR IMMEDIATE RELEASE February 29, 1972

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 $4,200,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing March 9, 1972, in the amount of $3,903,055,000, as follows:

91-day bills (to maturity date) to be issued March 9, 1972 in the amount of $2,400,000,000, or thereabouts, representing an additional amount of bills dated December 9, 1971, and to mature June 8, 1972 (CUSIP No. 912793 NE2), originally issued in the amount of $1,601,065,000 (An additional amount of approximately $200 million will be issued on March 6, 1972), the additional and original bills to be freely interchangeable.

182 - day bills, for $1,800,000,000, or thereabouts, to be dated March 9, 1972, and to mature September 7, 1972 (CUSIP No. 912793 PB6).

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 6, 1972. Tenders will not be received at the Treasury Department, Washington. Each tender must be for a minimum of $10,000. Tenders over $10,000 must be in multiples of $5,000. In the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e.g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

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

submit tenders except for their own account. Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of Treasury bills applied for, unless the tenders are 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 announcemen 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 9, 1972, in cash or other immediately available funds or in a like face amount Treasury bills maturing March 9, 1972. 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 fro any Federal Reserve Bank or Branch.

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