U.S. Treasury Dept.

Press releases.

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

FOR IMMEDIATE RELEASE January 2, 1973

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 $4,300,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing January 11, 1973, in the amount of $4,103,330,000 as follows:

91-day bills (to maturity date) to be issued January 11, 1973, in the amount of $2,400,000,000, or thereabouts, representing an additional amount of bills dated October 12, 1972, and to mature April 12, 1973 (CUSIP No. 912793 QP4) originally issued in the amount of $1,802,170,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,900,000,000, or thereabouts, to be dated January 11, 1973, and to mature July 12, 1973 (CUSIP No. 912793 RK4).

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, January 8, 1973. 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

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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 11, 1973, in cash or other immediately available funds or in a like face amount of Treasury bills maturing January 11, 1973. 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.

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

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FOR IMMEDIATE RELEASE . JANUARY 5, 1973

INDUSTRIAL PAYROLL SAVINGS COMMITTEE MEETS JANUARY 11 WITH SECRETARY OF THE TREASURY GEORGE P. SHULTZ

The U. S. Industrial Payroll Savings Committee, composed of leading executives of American business and industry, will meet in Washington on January 11 with Secretary of the Treasury George P. Shultz and other top Treasury officials to acknowledge the contributions of the Committee in exceeding its 1972 campaign goal by 13 percent and to plan the 1973 program.

William M. Batten, Chairman of the Board, J. C. Penney Co., Inc., New York, is to be installed as 1973 Committee Chairman. He succeeds Donald S. MacNaughton, Chairman and Chief Executive Officer, the Prudential Insurance Co. of America, Newark, N. J., who will continue as a member of the Committee.

Members of the 1972 Committee -- representing 26 major industries and 23 geographic areas of the country -- have achieved 113 percent of the year's goal by enrolling 2,599,396 employees as new Payroll Savers or as continuing savers increasing their allotments. Within the companies headed by Committee members, 462,525 new savers were enrolled and 559,094 employees increased their allotments, for a total of 1,021,619 -- 44.4 percent of the national enrollment goal.

Paul A. Volcker, Under Secretary of the Treasury for Monetary Affairs, will open the meeting in the Department of State Diplomatic Functions Suite. Mr. MacNaughton will preside.

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

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FOR IMMEDIATE RELEASE January 4, 1973

RESULTS OF TREASURY BOND AUCTION

The Treasury has accepted all competitive tenders at prices of 99.50 and higher received for its new 6-3/4% 20-year bonds auctioned today. As previously announced, the price to be paid by ALL successful bidders is the lowest price accepted. This price results in a yield of about 6.79%.

These accepted competitive tenders amount to $546 million out of a total of $1,668 million competitive tenders received. Thus far, an additional $72 million of non-competitive tenders have been received. Additional non-competitive tenders timely postmarked are expected to be received, bringing the final total of competitive and non-competitive tenders accepted to approximately $625 million.

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

FOR IMMEDIATE RELEASE January 5, 1973

TREASURY ISSUES COUNTERVAILING DUTY ORDER AGAINST X-RADIAL STEEL BELTED TIRES BY MICHELIN OF CANADA

The Treasury Department announced today the issuance of a countervailing duty order upon imports of X-Radial Steel Belted Tires produced by Michelin Tire Ltd., of Canada.

This action was taken under section 303 of the Tariff Act of 1930 (19 U.S.C. 1303). Under this section, the Secretary of the Treasury is required to assess an additional duty equal to any "bounties or grants" paid or bestowed on merchandise imported into the United States.

Subsidies to Michelin to support a newly established plant in Canada include Federal-Provincial grants totaling more than $23 million, a $50 million low interest rate loan extended for plant construction and other purposes by the Province of Nova Scotia, and reduced local property tax assessments. Planning for the Michelin plant contemplated that the substantial majority of the production be exported for the United States market, and such exports have started. In these circumstances, the subsidies to Michelin constitute "bounties or grants" within the provisions of section 303 requiring the Treasury to assess countervailing duties.

The countervailing duty, which relates the value of the grants to the overall value of production, is estimated at 6.6% of the f.o.b. factory price for 1973. The actual rate of the countervailing duty for 1973 and subsequent years cannot be determined until Michelin's production output for each year is known. Assuming Michelin's production increases, it is anticipated that the rate of the countervailing duty will decline in future years.

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Michelin's production facilities in Canada, which are located in Nova Scotia, started production in December 1971. The value of Michelin X-Radial Steel Belted Tires imported from Canada totaled approximately $9 million for calendar year 1972.

The Countervailing Duty Order will be published in the <u>Federal Register</u> of January 8, 1973, and will become effective as of February 10, 1973.

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

FOR IMMEDIATE RELEASE January 5, 1973

WITHHOLDING OF APPRAISEMENT OF
STAINLESS STEEL WIRE RODS FROM FRANCE

The Treasury Department announced today the withholding of appraisement of stainless steel wire rods from France pending a determination as to whether it is being sold at less than fair value within the meaning of the Antidumping Act, 1921, as amended.

The decision will appear in the Federal Register of January 8, 1973.

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 six months from the date of publication of the "Withholding of Appraisement Notice" in the Federal Register.

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

During the period of August 1971 through July 1972, imports of stainless steel wire rods from France totaled approximately $2.3 million.

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Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE W04-2041

FOR IMMEDIATE RELEASE January 8, 1973

TREASURY ISSUES STUDY ON ADMINISTRATION OF TAX RULES GOVERNING RELATED-COMPANY TRANSACTIONS

The Treasury Department today issued a study of the administration of the Federal income tax rules governing business transactions between U.S. companies and their foreign subsidiaries. The study was made by Treasury and the Internal Revenue Service.

IRS is authorized by Section 482 of the Internal Revenue Code to re-allocate income or deductions arising out of business transactions between related companies in order to reflect more closely the charges that would have been made between unrelated companies dealing with each other at "arm's length". The most common re-allocations made by IRS under Section 482 involve intercompany pricing of goods sold by one company to a related company, inter-company service charges, and interest charges on the inter-company loan of funds.

In the study released today, Treasury and the IRS analyzed 871 cases involving U.S. companies and foreign subsidiaries in which the examining revenue agent considered or made an adjustment in the allocation of income or deductions between the companies that would have increased the U.S. companies' income tax liability. The study included those cases in which the revenue agents' examination reports were completed in 1968 or 1969.

The study includes 10 tables of data and an analysis of the most important information contained in them. It provides data on the frequency and dollar amounts of the various types of adjustments made by the agents, such as in intercompany pricing and the intercompany loan of funds, and on the methods used in making the adjustments. Also included are statistics on the size of the U. S. taxpayers involved. While the study includes statistics on the percentage of adjustments agreed to by the taxpayer on presentation of the agent's findings, the study does not trace the subsequent disposition of cases which were not agreed to at that stage.

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Treasury and IRS began the study in 1970 to determine whether clarifying changes should be made in the intercompany pricing regulations. The Report of the President's Task Force on Business Taxation, published in September 1970, indicated that many taxpayers favored clarifying changes. Treasury and IRS subsequently broadened the study to include other cases in which the Section 482 regulations applied.

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U. S. TREASURY DEPARTMENT

Summary Study of International Cases Involving Section 482 of the Internal Revenue Code

January, 1973

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Purpose of Study

The purpose of this study was to obtain data concerning the administration by the Internal Revenue Service of regulations under section 482 of the Internal Revenue Code, as applied to international transactions and arrangements. Under section 482 the Secretary or his delegate may distribute, apportion, or allocate gross income, deductions, credits, or allowances between or among organizations, trades or businesses which are owned or controlled directly or indirectly by the same interests, in order to prevent the evasion of taxes or clearly to reflect income of any such organizations, trades, or businesses.

Scope of Study

Included in this study were all international cases in which the examining agent considered making one or more section 482 adjustments and in which the revenue agent's report of examination was completed in calendar year 1968 or calendar year 1969. The data contained in this study are based entirely on the revenue agent's report of examination in each case. Information concerning the disposition of each case after the filing of the revenue agent's report was not examined.

Compilation of Data

1. A total of 871 international cases were identified in which examining agents considered making one or more section 482 adjustments. Where a taxpayer's returns were audited for more than one year, or where an entity related to the U. S. taxpayer also filed a U.S. tax return, in general all returns were treated as one case.

2. The 871 cases in which section 482 adjustments were considered were first analyzed to determine in which cases one or more section 482 adjustments were made, and in which cases no adjustments were made (Table 1). All section 482 adjustments that the examining agents considered making in the 871 cases were then characterized as "potential" adjustments and were broken down into categories showing the various types of adjustments that were considered in the cases, and to what extent the various types of potential adjustments considered were actually made by the agents1/ (Table 2). The study then made a detailed breakdown of those adjustments

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1/ An adjustment was treated as having been "made" for purposes of this study if it was written up in the revenue agent's report of examination, even though technically an adjustment is not "made" in an agent's report but only recommended. An adjustment that is recommended in the report filed by an agent is made at that point only if it is agreed to by the taxpayer. An adjustment that is recommended by an agent and not agreed to by the taxpayer at that point is not actually "made" until a later stage in the case.

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that were actually made in the cases by the examining agents (Tables 4, 5, 6, 8, 9, and 10). Data were then compiled showing the effect in the cases of participation by an International Examiner (Table 7). Finally, data were compiled where possible showing the size of the taxpayer in each case, without regard to the types of adjustments that were considered in the cases (Table 3).

3. Where a transaction involving a U. S. taxpayer and many foreign subsidiaries was concerned, in general all potential adjustments were treated as one potential adjustment. For example, where the agent considered allocating among many foreign subsidiaries a particular expense claimed by the U.S. taxpayer, all potential adjustments were treated as one potential adjustment for purposes of the study. Similarly, where the agent considered making adjustments affecting a number of separate but similar transactions between the U. S. taxpayer and many foreign subsidiaries (such as a pricing adjustment where the U. S. taxpayer had sold identical or similar products to a number of different foreign subsidiaries), all potential adjustments were treated as one adjustment.

4. Where the study file did not contain sufficient information to determine the exact reason that an adjustment was made or not made, no effort was made to secure clarifying

information due to the cost and time that would have been required (it is noted that only the international issues treated in each examination report were examined in the study). Such adjustments are reported under the heading "Not Clear" in Tables 9 and 10, and "Unknown" in Tables 1, 2, 4, 5, 6, and 7. Similarly, where information concerning the size of the U. S. taxpayer was not readily available, the taxpayer was included under the heading "No Category" in Table 3.

Study and Data Compilation Highlights

Adjustments were actually made in slightly more than half of the 871 cases in which one or more adjustments involving section 482 were considered by the examining agent (458 cases out of 871; see Table 1). Similarly, out of a total of 1,706 potential adjustments that were considered in the 871 cases, slightly more than half (886 adjustments) were actually made (Table 2). The aggregate dollar amount of all the 886 adjustments made totaled more than $662 million (Table 4).

1. Frequency of Adjustments Made (Tables 1 and 2)

Among the 1,706 potential adjustments that were considered, a larger number of pricing adjustments were considered than any other type of potential adjustment (591 out of 1,706 considered). On the other hand, pricing adjustments on a percentage basis were actually made less frequently (29.5% of potential pricing adjustments were actually made) than any other type of adjustment for which the statistics were meaningful.[2] The types of adjustments that were made most frequently on a percentage basis among all potential adjustments were those involving the allocation of net income[3] (89.0% of all adjustments considered were actually made) and allocation of expense items (83.8%), followed by interest adjustments (66.5%). Out of the total 886 adjustments made, more interest adjustments were made (258 interest adjustments) than any other type of adjustment.

The figures showing the number of cases in which adjustments were made and not made (Table 1) were broken down further to show the "principal" adjustment that was made in each case where one or more adjustment was made, and the "principal" adjustment that was considered but not made in each case where no adjustment was made.[4] Those figures

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2/ Adjustments involving the rental of personal property were made less frequently on a percentage basis (27.3%). However, rental adjustments were considered in only 11 out of the 1,706 potential adjustments that were considered (Table 2), and the aggregate dollar amount of all rental adjustments totaled only $555,000 (Table 4).

3/ An agent was treated as having made an allocation of net income where he allocated particular items of gross income from one entity to another, together with any deductions attributable to such items.

4/ In each case where more than one adjustment was made, the adjustment in the largest dollar amount was treated as the "principal" adjustment made in the case. Similarly, in each case where no adjustments were made, the potential adjustment which the agent believed would have been the largest if it had been made was treated as the principal adjustment considered in the case. In each case where only one adjustment was made, that adjustment by definition was treated as the principal adjustment made in the case, even though larger potential adjustments were considered but not made in the same case. For example, if an interest adjustment of $100,000 was made in a case and a pricing adjustment of approximately $1 million was considered but not made in the same case, the interest adjustment would be the principal adjustment made in the case.

parallel fairly closely the figures given in Table 2 for all potential adjustments that were considered (discussed above). For example, a pricing adjustment was the principal adjustment made or not made in almost half of the cases (390 out of 871 cases), while on a percentage basis pricing adjustments were actually made less frequently (33.3%) than any other type of principal adjustment for which the statistics were meaningful. Similarly, the principal adjustments that were actually made most frequently on a percentage basis were those involving the allocation of net income (86.1%) and allocation of expense items (86.4%), and interest adjustments (76.7%). The percentage of the 871 cases in which one or more adjustments were made (52.6%) was also fairly close to the percentage of all potential adjustments considered that were actually made (51.9%).

2. Dollar Amounts of Adjustments Made

(a) Aggregate Dollar Amounts (Table 4)

Of the total $662,101,000 of adjustments made in all cases, pricing adjustments totaled $312,526,000, or almost half of the total dollar amount of all adjustments made (Table 4). The total dollar amount of services adjustments--$126,996,000--was the second largest dollar amount by category, and the total dollar amount of interest adjustments--$75,936,000--was the third largest.

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The total dollar amount of adjustments made in each category was broken down further in Table 4 into 11 different dollar ranges showing the frequency that adjustments of particular sizes were made in each category. In every category except those in which the total dollar amounts were insubstantial (rental adjustments and gain allocations), the overwhelming proportion (well over 90 percent) of the total dollar amount of adjustments in each category represented single adjustments of at least $100,000 in size. The aggregate amount of all adjustments that were less than $100,000 in size for all categories totaled less than $16,000,000 out of the total sum of $662,101,000 for all adjustments made.

(b) <u>Average Dollar Amounts Per Adjustment</u> (Table 5)

The total dollar amount of adjustments made in each category was also broken down further in Table 5 to show the average dollar amount for each category of adjustments made, and the average dollar amount <u>per year</u> for each category of adjustments made. The average amount per adjustment made for all types of adjustments was $747,000. Since the average number of years audited in each case was slightly more than two years, the average amount per year for all adjustments made was $330,000.

Pricing adjustments accounted for the largest average dollar amounts -- $1,796,000 per adjustment made, and $679,000 per year for each adjustment made. These amounts were more than twice the average dollar amounts for any other category. The next largest average dollar amounts per adjustment made were for services adjustments and allocations of net income ($847,000 average for each category). Although interest adjustments accounted for the largest number of single adjustments made out of all potential adjustments that were considered (Table 2), the average dollar amount for all interest adjustments made -- $294,000 -- was lower than the average dollar amount in all other categories for which the statistics were meaningful.

3. Percentage of Adjustments Agreed To (Table 6)

A separate analysis was made showing the extent to which the total 886 adjustments made were agreed to or not agreed to by the U. S. taxpayer in each case (Table 6). For purposes of this study, an adjustment was treated as "agreed" if it was recorded as agreed in the revenue agent's report of examination. Of the 886 adjustments made, 51% were agreed to by the taxpayer and an additional 8% were partially agreed to. Cases involving interest adjustments were agreed to most frequently (59% agreed, and 6% agreed in part), followed by adjustments involving the allocation of expense items (57% agreed, and 11% agreed in part). Of the cases involving pricing adjustments, 41% were agreed, 11% were partially agreed, and 48% were not agreed.

4. Participation of International Examiner (Table 7)

The 458 principal adjustments made (see Table 1) were further analyzed in Table 7 with reference to whether an International Examiner participated in the case or not (where an International Examiner participated in the case only nominally, he was considered not to have participated in the case at all).5/ International Examiners made principal adjustments in roughly three-fifths of the cases in which they participated (364 adjustments out of 607 cases in which they participated), while principal adjustments were made in slightly more than one-third of the cases in which an International Examiner did not participate (94 out of 264 cases in which an International Examiner did not participate). An International Examiner participated in more than two-thirds of the cases in which the principal adjust-

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5/ In general, an International Examiner is asked by his regional program manager to participate in a case where a large potential adjustment with international aspects is being considered, and where the regional manager does not feel that the district agent has the expertise to examine the issue properly.

ment that was considered was a pricing adjustment (272 out of 390 cases), and an International Examiner participated in almost all of the cases in which the principal adjustment that was made was a pricing adjustment (122 adjustments out of 130 made). However, in more than half of the cases in which an International Examiner considered a potential pricing adjustment, he did not make the adjustment (150 pricing adjustments not made out of 272 pricing cases participated in).

5. Analysis of Most Frequent Adjustments (Tables 8, 9, and 10)

Data concerning three of the four most frequent types of adjustments -- pricing adjustments, services adjustments, and adjustments involving intangibles -- were analyzed in detail to determine the reason that the agent did or did not make a particular adjustment. Because both the safe haven for interest charges contained in the regulations and the rules to be applied in making interest adjustments are extremely precise [Treasury Regulation §1.482-2(a)(2)], no detailed analysis was made of potential interest adjustments, even though more interest adjustments were made than any other type of adjustment (see Table 2).

(a) Pricing Adjustments (Table 8)

The present pricing regulations [Treasury Regulation §1.482-2(e)] provide for three methods in determining an arm's length price for the sale of tangible property between related entities. In order of priority they are the comparable uncontrolled price method, the resale price method, and the cost-plus method. Under the regulations other unspecified methods can be used to determine an arm's length price if none of the specified methods may reasonably be applied, or if some other method is clearly more appropriate.

Of the 174 pricing adjustments made in the study, 20.7% were based on the comparable uncontrolled price method, 10.9% were based on the resale price method, 27.6% were based on the cost-plus method, and 40.8% were based on an improvised fourth method. Where a pricing adjustment was not made, however, the comparable uncontrolled price method was applied in 56.1% of the cases (234 cases out of 417 in which a pricing adjustment was considered but not made), usually on the basis of evidence of sales to third parties offered by the taxpayer. A fourth method was applied in 27.6% of the cases in which a pricing adjustment was not made (115 out of 417 cases).

(b) Services Adjustments (Table 9)

Where one entity renders services for the benefit of a related entity, the regulations provide that an arm's length charge for the services may ordinarily be determined on the basis of the costs incurred by the entity rendering the services [Treasury Regulation §1.482-2(b)(3) - (6)]. If the services are an "integral part" of the business activity of either entity, however, an arm's length charge must be based on the amount that an unrelated third party would have paid.

Of the 288 potential services adjustments that were considered, 150 (52.1% of the total) were actually made (Table 2). Approximately 60% of the services adjustments were made either on the basis of the taxpayer's costs or on the basis of third-party transactions. (Table 9). Approximately 40% of the services adjustments were made by application of a hybrid method.

(c) <u>Adjustments Involving Transfer of Intangibles (Table 10)</u>

Where intangible property (such as patents or know-how) is transferred or made available by one entity to a related entity, the regulations provide that an arm's length consideration must be received [Treasury Regulation §1.482-2(d)(1)]. Where the property has been developed jointly by the related parties pursuant to a bona fide cost-sharing arrangement, however, each entity will be permitted to use the property free of charge to the extent that it shared in the costs of development. Where an arm's length consideration must be determined, the standard to be applied is the consideration that would have been received from an unrelated third party for the intangible property under the same circumstances. Where similar transactions with third parties cannot be found, the regulations set forth 12 factors that may be examined in determining an arm's length consideration.

Of the 188 potential adjustments involving intangibles that were considered, 100 (53.2% of the total) were actually made (Table 2). Of the 100 adjustments made, no consideration had been received in 73 instances (Table 10). In 6 instances where no consideration had been received, the parties had shared the research and development costs under a cost-sharing arrangement which the agent determined had not properly reflected the costs and risks of the parties to the arrangement. Accordingly, in those cases the agent reallocated the development costs in order to properly reflect such costs and risks, as required by §1.482-2(d)(4) of the regulations, instead of imputing an arm's length consideration from one entity to another.6/ The remaining 93

6/ In one instance where inadequate or excessive consideration had been received by the developer, and where no cost-sharing arrangement had been entered into among the parties, the adjustment was made by allocating development costs among the parties, rather than by imputing an arm's length consideration to the developer. This case is recorded under the heading "Cost Sharing" in Table 10 in order to reflect the manner in which the adjustment was made.

adjustments were made by imputing an arm's length consideration to the entity that had transferred or made available the intangible property to the related entity. The consideration received by the taxpayer from unrelated third parties was used as the basis for 54 of these adjustments, while the various other methods prescribed in the regulations were applied in making 24 of these adjustments.

Of the 88 potential adjustments involving the transfer of intangibles that were considered but not made, the existence of a cost-sharing arrangement among the related entities was the basis for not making an adjustment for only 9.1% of the adjustments not made. The consideration received by the taxpayer from unrelated third parties was relied upon as the basis for not making an adjustment in 23.9% of these cases, while the various methods prescribed in the regulations were relied upon as the basis for not making an adjustment in 35.2% of these cases.

6. Size of Taxpayers Examined (Table 3)

An examination of the size of the primary taxpayer was made for each of the 458 cases in which one or more adjustments were made, and for each of the 413 cases in which no adjustment was made (Table 3). Among the 378 primary taxpayers that experienced adjustments and for which this information was readily available (in other words, 458 taxpayers that experienced adjustments minus the 80 taxpayers listed by asset size in "No Category"), more than half the adjustments made affected primary taxpayers with more

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than $50 million in assets (199 taxpayers out of 370). In general, the frequency with which taxpayers experienced adjustments increased with the size of the taxpayers. Among taxpayers with assets of less than $50 million that were audited in connection with a section 482 problem, 50% or less actually experienced adjustments. The percentage of taxpayers that experienced adjustments increased sharply with respect to taxpayers having assets of more than $50 million, increasing to 76.6% for taxpayers having assets of more than $250 million.

TABLE 1

Analysis by Case of Principal Adjustments[1] Made and Not Made

	Total Cases	Adjustments Made[2]	No Adjustments Made	Percent Made
Pricing	390	130	260	33.3
Intangibles	70	46	24	65.7
Interest	163	125	38	76.7
Services	133	64	69	48.1
Rental	7	2	5	28.6
Allocation of Net Income	36	31	5	86.1
Allocation of Expense	66	57	9	86.4
Allocation of Gain	5	2	3	40.0
Unknown	1	1	-	100
	871	458	413	52.6%

1/ See page 5 of the Summary for definition of "Principal Adjustments."

2/ See page 2 of the Summary for definition of "Adjustments Made."

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TABLE 2

Analysis of All Potential Adjustments 1/

	Total Potential Adjustments	Adjustments Made	Adjustments Not Made	Percent Made
Pricing	591	174	417	29.5
Intangibles	188	100	88	53.2
Interest	388	258	130	66.5
Services	288	150	138	52.1
Rental	11	3	8	27.3
Allocation of Net Income	55	48	7	89.0
Allocation of Expense	179	150	29	83.8
Allocation of Gain	5	2	3	40.0
Unknown	1	1	-	-
	1,706	866	820	51.9%

1/ See page 2 of the Summary for definition of "Potential Adjustments."

TABLE 3

Number of Cases Analyzed by Asset Size of Primary U. S. Taxpayer

Asset Size of Primary U.S. Taxpayer (In Thousands)	Adjustments Made	No Adjustments Made	Percent Made
Under 50	1	2	33.3
50-100	1	4	20.0
100-250	4	4	50.0
250-500	3	10	23.1
500-1,000	13	21	38.2
1,000-5,000	47	74	38.8
5,000-10,000	31	38	44.9
10,000-50,000	79	89	47.0
50,000-100,000	40	22	64.5
100,000-250,000	38	20	65.5
Over 250,000	121	37	76.6
No Category	80	92	46.5
	458	413	52.6%

Table 4

Total Amounts of Adjustments (In Thousands)

Dollar Range of Adjustments		Pricing	Intangibles	Interest	Services	Rental	Allocation of Net Income	Allocation of Expense	Allocation of Gain	Total
$ 0	- $ 5,000	$ 2	$ 9	$ 117	$ 27		$ 3	$ 57		$ 215
5,000	- 10,000	16	43	343	83			66		551
10,000	- 25,000	188	198	837	313	$ 14	116	619		2,285
25,000	- 50,000	453	512	1,335	802		105	1,040		4,247
50,000	- 100,000	691	1,869	1,967	1,883	91	334	1,576	$ 95	8,506
100,000	- 500,000	12,101	6,790	9,013	9,696	450	3,575	4,165		45,790
500,000	-1,000,000	18,194	5,683	5,548	8,353		3,929	4,973	558	47,238
1,000,000	-3,000,000	61,048	10,852	12,332	20,888		21,032	8,177		134,329
3,000,000	-6,000,000	46,540		4,000	6,931			9,065		66,536
6,000,000	-9,999,000	55,252		8,536	21,436			6,492		91,716
9,999,000	- Above	118,041	26,468	31,908	56,584		11,561	16,080		260,642
Totals (In Thousands)		312,526	52,424	75,936	126,996	555	40,655	52,310	653	662,055
Type of Adjustments Unknown										46
Grand Total--All Adjustments										$662,101

TABLE 5

Average Dollar Amount, Per Year and Per Adjustment

For Adjustments Made in Each Category

Category	Number of Adjustments Made	Total Number of Years	(In Thousands) Total Amounts	(In Thousands) Average Amount Per Adjustment Made	(In Thousands) Average Amount Per Year
1. Pricing	174	460	$312,526	$1,796	$679
2. Intangibles	100	227	52,424	524	231
3. Interest	258	480	75,936	294	158
4. Services	150	368	126,996	847	345
5. Rental	3	11	555	185	50
6. Allocation of net income	48	117	40,655	847	348
7. Allocation of expense	150	339	52,310	349	154
8. Allocation of gain	2	3	653	327	218
Unknown	1	2	46		
TOTALS	886	2,007	662,101	747	330

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TABLE 6

Adjustments Made

Agreed, Agreed in Part, Not Agreed

	Total Number	Agreed #	Agreed %	Agreed In Part #	Agreed In Part %	Not Agreed #	Not Agreed %
Pricing	174	71	41	20	11	83	48
Intangibles	100	52	52	8	8	40	40
Interest	258	153	59	15	6	90	34
Services	150	65	43	10	7	75	51
Rent	3	1	33	--	--	2	66
Allocation of Net Income	48	21	44	--	--	27	56
Allocation of Expense	150	85	57	17	11	48	33
Allocation of Gain	2	1	50	1	50	--	--
Unknown	1	--	--	--	--	--	--
TOTALS	886	449	51%	71	8%	365	41%

TABLE 7

Participation of International Examiner

(Principal Adjustments)

	Participation		Non-Participation		Totals	
	Adjustment made	Adjustment not made	Adjustment made	Adjustment not made	Total Adjustments made	Total Adjustments not made
Pricing	122	150	8	110	130	260
Intangibles	39	17	7	7	46	24
Interest	83	22	42	16	125	38
Services	51	43	13	26	64	69
Rental	1	2	1	3	2	5
Allocation of Net Income	27	2	4	3	31	5
Allocation of Expenses	39	5	18	4	57	9
Allocation of Gain	2	2		1	2	3
Category Unknown			1		1	
TOTAL CASES	364	243	94	170	458	413

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TABLE 8

Methods Used for Pricing Adjustments

Adjustments Made	Totals	Percent of Pricing Adjustments Made
Method Used		
1. Uncontrolled Sales	36	20.7
2. Resale Price	19	10.9
3. Cost Plus	48	27.6
4. Proportionate Profit	12	6.9
5. Ratio of Return on Investment	1	.6
6. Other formula	27	15.5
7. Others	31	17.8
	174	100.0%

Adjustments Not Made	Totals	Percent of Pricing Adjustments Not Made
Method Used		
1. Uncontrolled Sales	234	56.1
2. Resale Price	11	2.6
3. Cost Plus	57	13.7
4. Proportionate Profit	3	.7
5. Rate of Return on Investment	2	.5
6. Other formula	32	7.7
7. Others	78	18.7
	417	100.0%

TABLE 9

Adjustments for Services Performed

	Total	Taxpayer's Cost	Taxpayer's Transactions with other parties	Trans-actions between other parties	With Unrelated and between Unrelated	Not Clear	Other
Adjustments Made							
No Charge	77	21	19	4	--	17	16
Inadequate Charge	73	14	21	9	1	16	12
	150	35	40	13	1	33	28
	(100%)	(23.3%)	(26.7%)	(8.7%)	(0.7%	(22.0%)	(18.7%)
Adjustments Not Made							
	138	19	34	18	-	34	33
	(100%)	(13.8%)	(24.6%)	(13.0%)		(24.6%)	(23.9%)

TABLE 10

Adjustments Involving Transfer or Use of Intangibles

Adjustments Made

	Total	Cost Sharing	Taxpayer's Transactions with Other Parties	Transactions Between Other Parties	Other Method	Not Clear
No Consideration Received by Taxpayer	73	6	47	1	11	8
Inadequate or Excessive Consideration Received	27	1	7	--	13	6
	100	7	54	1	24	14
	(100%)	(7.0%)	(54.0%)	(1.0%)	(24.0%)	(14.0%)

Adjustments Not Made

	Total	Cost Sharing	Taxpayer's Transactions with Other Parties	Transactions Between Other Parties	Other Method	Not Clear
	88	8	21	6	31	22
	(100%)	(9.1%)	(23.9%)	(6.8%)	(35.2%)	(25.0%)

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

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ATTENTION: FINANCIAL EDITOR

FOR RELEASE 6:30 P.M. January 8, 1973

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 12, 1972, and the other series to be dated January 11, 1973, which were invited on January 2, 1973, were opened at the Federal Reserve Banks today. Tenders were invited for $2,400,000,000, or thereabouts, of 91-day bills and for $1,900,000,000, 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 12, 1973		182-day Treasury bills maturing July 12, 1973	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv. Annual Rate
High	98.705	5.123%	97.274	5.392%
Low	98.693	5.171%	97.253	5.434%
Average	98.697	5.155% 1/	97.264	5.412% 1/

7% of the amount of 91-day bills bid for at the low price was accepted
13% 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	$ 68,655,000	$ 62,245,000	$ 38,670,000	$ 2,170,000
New York	3,034,690,000	1,958,320,000	2,794,780,000	1,624,380,000
Philadelphia	15,640,000	15,640,000	54,610,000	3,895,000
Cleveland	23,790,000	23,580,000	71,100,000	21,100,000
Richmond	14,245,000	11,315,000	7,140,000	3,140,000
Atlanta	13,305,000	9,755,000	15,200,000	5,095,000
Chicago	298,595,000	169,565,000	270,250,000	71,745,000
St. Louis	56,330,000	43,005,000	33,150,000	18,650,000
Minneapolis	36,490,000	16,700,000	42,010,000	13,010,000
Kansas City	27,830,000	15,275,000	31,675,000	14,315,000
Dallas	46,770,000	14,865,000	32,580,000	7,590,000
San Francisco	113,750,000	60,175,000	188,935,000	114,935,000
TOTALS	$3,750,090,000	$2,400,440,000 a/	$3,580,100,000	$1,900,025,000 b/

a/ Includes $182,505,000 noncompetitive tenders accepted at the average price of 98.697
b/ Includes $100,145,000 noncompetitive tenders accepted at the average price of 97.264
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 5.30 % for the 91-day bills, and 5.64% for the 182-day bills.

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

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FOR IMMEDIATE RELEASE January 9, 1973

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 $4,300,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing January 18, 1973, in the amount of $4,080,590,000, as follows:

91 -day bills (to maturity date) to be issued January 18, 1973, in the amount of $2,400,000,000, or thereabouts, representing an additional amount of bills dated October 19, 1972, and to mature April 19, 1973 (CUSIP No. 912793 QQ2) originally issued in the amount of $1,800,300,000, the additional and original bills to be freely interchangeable.

182 -day bills, for $1,900,000,000, or thereabouts, to be dated January 18, 1973, and to mature July 19, 1973 (CUSIP No. 912793 RL2).

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, January 15, 1973. 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 January 18, 1973, in cash or other immediately available funds or in a like face amount of Treasury bills maturing January 18, 1973. 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.

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

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FOR IMMEDIATE RELEASE JANUARY 11, 1973

U. S. INDUSTRIAL PAYROLL SAVINGS COMMITTEE MEETS;
SETS 1973 GOAL OF 2.4 MILLION SAVERS

The U. S. Industrial Payroll Savings Committee met today, in its annual session, with Treasury Secretary George P. Shultz, in the Diplomatic Functions Suite of the State Department.

The purposes of the meeting were to report on the success of the Committee's 1972 Savings Bonds campaign, to install its new 1973 campaign Chairman, and to plan its course of action toward meeting the 1973 campaign goal -- to sign up 2.4 million new Payroll Savers or those who increase their allotments.

William M. Batten, Chairman of the Board, J. C. Penney Co., Inc., New York, is Chairman of the 60-member 1973 Committee, which includes representatives of 26 major industries and 23 geographic areas.

He succeeds Donald S. MacNaughton, Chairman and Chief Executive Officer, The Prudential Insurance Co. of America, Newark. Sales of Savings Bonds in the $25-to-$200 denomination range, which are bought chiefly by Payroll Savers, reached $4.15 billion in 1972 -- $1.5 billion higher than in 1962, the year the Committee was formed. MacNaughton stated that -- "The impressive statistics resulting from the campaign can be calculated. But the patriotism, involvement and leadership of our Committee members -- characteristics that made the achievements possible -- are incalculable." During 1972, the Committee's campaign signed up 2.6 million new or increased-allotment savers, compared to a goal of 2.3 million, he reported.

Certificates of Appointment, signed by Secretary Shultz, were presented to the 29 new 1973 Committee members. Appointments are for one year.

Special awards were given to outgoing Chairman MacNaughton and to all 1972 Committee members -- the Treasury's Gold Medal of Merit to MacNaughton and Silver Medals of Merit to Committee members. Past Chairmen were presented twin-seal plaques, containing the Great Seal

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(OVER)

of the United States and the seal of the Treasury Department.

Secretary Shultz's citation to Chairman MacNaughton read, in part, "Under his leadership and inspired by his example, American industry far exceeded its goal of enrolling 2,300,000 savers in 1972 and raised the sale of Series E Bonds through the Payroll Savings Plan to the highest dollar total in 27 years. 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: 1963, Harold S. Geneen, Chairman and Chief Executive Officer, International Telephone & Telegraph Corp.; 1964, Frank R. Milliken, President, Kennecott Copper Corp.; 1965, Dr. Elmer W. Engstrom, then President, 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, then Chairman and Chief Executive Officer, United Aircraft Corp.; 1969, James M. Roche, then Chairman of the Board, General Motors Corp.; 1970, Gordon M. Metcalf, Chairman of the Board, Sears, Roebuck and Co., and 1971, B. R. Dorsey, Chairman of the Board, Gulf Oil Corp.

Lists of 1972 and 1973 Committee members are attached.

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Attachments

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U. S. INDUSTRIAL PAYROLL SAVINGS COMMITTEE

1972 MEMBERSHIP

Ex Officio General Chairman
The Honorable George P. Shultz
Secretary of the Treasury
Washington, D. C.

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

Chairmen 1963-1971

1971

B. R. Dorsey
Chairman of the Board
Gulf Oil Corp.
Pittsburgh, Pa.

1970

Gordon M. Metcalf
Chairman of the Board
Sears, Roebuck and Co.
Chicago, Ill.

1969

James M. Roche
Past Chairman of the Board
General Motors Corp.
Detroit, Mich.

1968

William P. Gwinn
Past Chairman
United Aircraft Corp.
East Hartford, Conn.

1967

Daniel J. Haughton
Chairman of the Board
Lockheed Aircraft Corp.
Burbank, Calif.

1966

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

1965

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

1964

Frank R. Milliken
President
Kennecott Copper Corp.
New York, N. Y.

1963

Harold S. Geneen
Chairman and Chief Executive Officer
International Telephone and Telegraph Corp.
New York, N. Y.

1972 GEOGRAPHIC MEMBERS

BALTIMORE
William P. Coliton
President
Western Maryland Railway Co.
Baltimore, Md.

BOSTON
Gerhard D. Bleicken
Chairman of the Board and
Chief Executive Officer
John Hancock Mutual Life
Insurance Co.
Boston, Mass.

CHICAGO
Robert C. Gunness
President
Standard Oil Co. (Indiana)
Chicago, Ill.

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

CLEVELAND
Willis B. Boyer
President and Chief
Executive Officer
Republic Steel Corp.
Cleveland, Ohio

DALLAS
William H. Seay
President
Southwestern Life
Insurance Co.
Dallas, Tex.

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

DETROIT
Kenneth J. Whalen
President and Chief
Executive Officer
Michigan Bell Telephone Co.
Detroit, Mich.

HARTFORD
Arthur E. Smith
Chairman
United Aircraft Corp.
East Hartford, Conn.

HOUSTON
Herbert J. Frensley
President and Chief
Executive Officer
Brown & Root, Inc.
Houston, Tex.

INDIANAPOLIS
Charles A. Barnes
President and Chief
Executive Officer
P. R. Mallory & Co., Inc.
Indianapolis, Ind.

LOS ANGELES
Justin Dart
Chairman and President
Dart Industries Inc.
Los Angeles, Calif.

MIAMI
Charles H. Kellstadt
Chairman of the Board and
Chief Executive Officer
General Development Corp.
Miami, Fla.

MILWAUKEE
Robert V. Krikorian
President
Rex Chainbelt Inc.
Milwaukee, Wis.

22

MINNEAPOLIS-ST. PAUL
J. P. McFarland
Chairman of the Board and
Chief Executive Officer
General Mills, Inc.
Minneapolis, Minn.

NEW JERSEY
Richard B. Sellars
President-Worldwide and Chairman
of the Executive Committee
Johnson & Johnson
New Brunswick, N. J.

NEW ORLEANS
G. Frank Purvis, Jr.
President and Chief
Executive Officer
Pan American Life
Insurance Co.
New Orleans, La.

NEW YORK
David L. Yunich
Vice Chairman
R. H. Macy & Co., Inc.
New York, N. Y.

PHILADELPHIA
William C. Musham
President and Chief
Executive Officer
I-T-E Imperial Corp.
Spring House, Pa.

PITTSBURGH
Edgar B. Speer
President
United States Steel Corp.
Pittsburgh, Pa.

ST. LOUIS
David S. Lewis
Chairman and Chief
Executive Officer
General Dynamics Corp.
St. Louis, Mo.

SAN FRANCISCO
Rudolph J. Drews
Chairman of the Board and
Chief Executive Officer
Foremost-McKesson, Inc.
San Francisco, Calif.

SEATTLE
James G. McCurdy
Chairman of the Board
Lockheed Shipbuilding and
Construction Co.
Seattle, Wash.

WASHINGTON, D. C.
Joseph B. Danzansky
President and Chief Executive
Officer
Giant Food Inc.
Landover, Md.

1972 INDUSTRY MEMBERS

INDUSTRY MEMBERS

AEROSPACE
James R. Kerr
President and Chief Executive Officer
Avco Corp.
Greenwich, Conn.

AIR TRANSPORTATION
Samuel L. Higginbottom
President and Chief Operating Officer
Eastern Air Lines, Inc.
Miami, Fla.

AUTOMOTIVE
Lee A. Iacocca
President
Ford Motor Co.
Dearborn, Mich.

BANKING
William I. Spencer
President
First National City Bank
New York, N. Y.

CHEMICALS
C. B. McCoy
Chairman and President
E. I. duPont de Nemours & Co., Inc.
Wilmington, Del.

ELECTRICAL EQUIPMENT
Melvin C. Holm
Chairman of the Board
Carrier Corp.
Syracuse, N. Y.

ELECTRONICS
Robert W. Sarnoff
Chairman of the Board and Chief Executive Officer
RCA Corp.
New York, N. Y.

FOOD MANUFACTURING
William A. Buzick, Jr.
Chairman and Chief Executive Officer
Consolidated Foods Corp.
Chicago, Ill.

GLASS MANUFACTURING
General Lauris Norstad
Chairman of the Board
Owens-Corning Fiberglas Corp.
Toledo, Ohio

INDUSTRIAL EQUIPMENT
William A. Marquard
President and Chief Executive Officer
American Standard, Inc.
New York, N. Y.

INSURANCE
Richard R. Shinn
President
Metropolitan Life Insurance Co.
New York, N. Y.

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

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

NON-FERROUS METALS
C. Jay Parkinson
Former Chairman and Chief Executive Officer
The Anaconda Co.
New York, N. Y.

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OFFICE AND COMPUTER EQUIPMENT
Frank T. Cary
Chairman of the Board and President
International Business Machines Corp.
Armonk, N.Y.

PAPER
Karl R. Bendetsen
Chairman and Chief Executive Officer
Champion International Corp.
New York, N. Y.

PETROLEUM
R. O. Anderson
Chairman of the Board
Atlantic Richfield Co.
Los Angeles, Calif.

PUBLIC UTILITIES
A. H. Aymond
Chairman of the Board and President
Consumers Power Co.
Jackson, Mich.

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

RETAIL FOOD
Robert F. Longacre
President
The Great Atlantic & Pacific Tea Co., Inc.
New York, N. Y.

RETAIL MERCHANDISING
William M. Batten
Chairman of the Board
J. C. Penney Co., Inc.
New York, N. Y.

RUBBER
Russell DeYoung
Chairman of the Board
The Goodyear Tire & Rubber Co.
Akron, Ohio

STATE GOVERNMENT
The Honorable
Linwood Holton
Governor
Commonwealth of Virginia
Richmond, Va.

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

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

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

U. S. INDUSTRIAL PAYROLL SAVINGS COMMITTEE

1973 MEMBERSHIP

Ex Officio General Chairman
The Honorable George P. Shultz
Secretary of the Treasury
Washington, D. C.

Chairman
William M. Batten
Chairman of the Board
J. C. Penney Co., Inc.
New York, N. Y.

Chairmen 1963-1972

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

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Chairman of the Board
Gulf Oil Corp.
Pittsburgh, Pa.

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International Telephone and
Telegraph Corp.
New York, N. Y.

1973 GEOGRAPHIC MEMBERS

ATLANTA
Carl J. Reith
President
Oxford Industries, Inc.
Atlanta, Ga.

BOSTON
Alan L. Haberman
President
First National Stores, Inc.
Somerville, Mass.

CHICAGO
Frederick G. Jaicks
Chairman
Inland Steel Co.
Chicago, Ill.

CINCINNATI
Philip O. Geier, Jr.
Chairman
Cincinnati Milacron Inc.
Cincinnati, Ohio

CLEVELAND
Willis B. Boyer
President and Chief Executive Officer
Republic Steel Corp.
Cleveland, Ohio

DALLAS
John V. James
President and Chief Executive Officer
Dresser Industries, Inc.
Dallas, Tex.

DENVER
Ralph J. Becker
President
Chevron Oil Co.-Western Division
Denver, Colo.

DETROIT
Robert E. Dewar
Chairman of the Board and Chief Executive Officer
S. S. Kresge Co.
Troy, Mich.

HARTFORD
Arthur E. Smith
Chairman
United Aircraft Corp.
East Hartford, Conn.

HOUSTON
E. Clyde McGraw
Chairman of the Board
Transcontinental Gas Pipe Line Corp.
Houston, Tex.

INDIANAPOLIS
Charles A. Barnes
President and Chief Executive Officer
P. R. Mallory & Co., Inc.
Indianapolis, Ind.

LOS ANGELES
Forrest N. Shumway
President and Chief Executive Officer
The Signal Companies
Beverly Hills, Calif.

MILWAUKEE
I. Andrew Rader
President
Allen-Bradley Co.
Milwaukee, Wis.

MINNEAPOLIS-ST. PAUL
Robert H. Engels
Chairman and Chief Executive Officer
Northern States Power Co.
Minneapolis, Minn.

NEW JERSEY
Richard B. Sellars
President-Worldwide and Chairman of the Executive Committee
Johnson & Johnson
New Brunswick, N. J.

NEW ORLEANS
Robert H. Boh
President
Boh Bros. Construction Co., Inc.
New Orleans, La.

NEW YORK
Richard R. Shinn
President
Metropolitan Life Insurance Co.
New York, N. Y.

PHILADELPHIA
William C. Musham
President and Chief Executive Officer
I-T-E Imperial Corp.
Spring House, Pa.

PITTSBURGH
Edgar B. Speer
President
United States Steel Corp.
Pittsburgh, Pa.

ST. LOUIS
A. S. Alston
President
Southwestern Bell Telephone Co.
St. Louis, Mo.

SAN FRANCISCO
Charles R. Dahl
President and Chief Executive Officer
Crown Zellerbach Corp.
San Francisco, Calif.

SEATTLE
Zane E. Barnes
President
Pacific Northwest Bell Telephone Co.
Seattle, Wash.

WASHINGTON, D. C.
Joseph B. Danzansky
President and Chief Executive Officer
Giant Food Inc.
Landover, Md.

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1973 INDUSTRY MEMBERS

AEROSPACE
Robert Anderson
President and Chief Operating Officer
North American Rockwell Corp.
El Segundo, Calif.

AIR TRANSPORTATION
Samuel L. Higginbottom
President and Chief Operating Officer
Eastern Air Lines, Inc.
Miami, Fla.

AUTOMOTIVE
Brooks McCormick
President and Chief Executive Officer
International Harvester Co.
Chicago, Ill.

BANKING
Gabriel Hauge
Chairman of the Board
Manufacturers Hanover Trust Co.
New York, N. Y.

CHEMICALS
C. B. McCoy
Chairman and President
E. I. duPont de Nemours & Co., Inc.
Wilmington, Del.

ELECTRICAL EQUIPMENT
Melvin C. Holm
Chairman of the Board
Carrier Corp.
Syracuse, N. Y.

ELECTRONICS
Robert W. Sarnoff
Chairman of the Board and Chief Executive Officer
RCA Corp.
New York, N. Y.

FOOD MANUFACTURING
William A. Buzick, Jr.
Chairman and Chief Executive Officer
Consolidated Foods Corp.
Chicago, Ill.

GLASS MANUFACTURING
John W. Fisher
President and Chief Executive Officer
Ball Corp.
Muncie, Ind.

INDUSTRIAL EQUIPMENT
William A. Marquard
President and Chief Executive Officer
American Standard, Inc.
New York, N. Y.

INSURANCE
J. Henry Smith
President
The Equitable Life Assurance Society of the U. S.
New York, N. Y.

MEN'S APPAREL
John D. Gray
Chairman of the Board and Chief Executive Officer
Hart, Schaffner & Marx
Chicago, Ill.

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

NON-FERROUS METALS
George B. Munroe
President
Phelps Dodge Corp.
New York, N. Y.

OFFICE AND COMPUTER EQUIPMENT
Charles L. Davis
President and Chief
Executive Officer
Addressograph Multigraph Corp.
Cleveland, Ohio

PAPER
George J. Kneeland
Chairman of the Board and
Chief Executive Officer
St. Regis Paper Co.
New York, N. Y.

PETROLEUM
R. O. Anderson
Chairman of the Board
Atlantic Richfield Co.
Los Angeles, Calif.

PUBLIC UTILITIES
E. R. Eberle
President and Chief
Executive Officer
Public Service Electric
and Gas Co.
Newark, N. J.

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

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

RETAIL MERCHANDISING
Lester A. Burcham
Chairman and Chief
Executive Officer
F. W. Woolworth Co.
New York, N. Y.

RUBBER
Raymond C. Firestone
Chairman and Chief
Executive Officer
The Firestone Tire & Rubber Co.
Akron, Ohio

STATE GOVERNMENTS
The Honorable
John A. Love
Governor
State of Colorado
Denver, Colo.

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

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

TEXTILES
John E. Reeves
Chairman of the Board
Reeves Brothers, Inc.
New York, N. Y.

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

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FOR IMMEDIATE RELEASE January 10, 1973

FINAL RESULTS OF TREASURY BOND AUCTION

The Treasury received $1,749 million of tenders for the $625 million of 6-3/4% 20-year bonds it offered. Tenders totaling $627 million were accepted, composed of all competitive tenders at prices of 99.50 and higher, amounting to $546 million, and all noncompetitive tenders, amounting to $81 million. There were $1,122 million of competitive tenders at prices below 99.50 which were not accepted.

Of the competitive tenders, $244 million were at prices of 99.75 or higher, $302 million were at prices of 99.50 through 99.74, $248 million were at prices of 99.25 through 99.49, and $278 million were at prices of 99.00 through 99.24.

Tenders submitted and accepted by Federal Reserve Districts were as follows:

District	Submitted	Accepted
Boston	$ 55,653,000	$ 32,193,000
New York	1,288,328,000	471,922,000
Philadelphia	36,937,000	27,422,000
Cleveland	32,392,000	8,132,000
Richmond	10,102,000	8,742,000
Atlanta	26,927,000	17,427,000
Chicago	141,808,000	15,203,000
St. Louis	25,798,000	14,293,000
Minneapolis	7,329,000	2,329,000
Kansas City	9,439,000	7,889,000
Dallas	14,261,000	7,260,000
San Francisco	97,335,000	13,809,000
Treasury	2,327,000	327,000
Totals	$1,748,636,000	$626,948,000

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UNITED STATES SAVINGS BONDS ISSUED AND REDEEMED THROUGH December 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	29,497	24	.08
Series J and K-1952 thru 1957	3,754	3,745	8	.21
UNMATURED				
Series E 3/ :				
1941	1,919	1,729	190	9.90
1942	8,465	7,620	845	9.98
1943	13,603	12,276	1,327	9.76
1944	15,877	14,256	1,622	10.22
1945	12,503	11,076	1,427	11.41
1946	5,697	4,891	806	14.15
1947	5,427	4,527	901	16.60
1948	5,626	4,615	1,011	17.97
1949	5,581	4,500	1,081	19.37
1950	4,895	3,895	1,000	20.43
1951	4,235	3,369	866	20.45
1952	4,437	3,507	930	20.96
1953	5,080	3,935	1,145	22.54
1954	5,179	3,958	1,221	23.58
1955	5,398	4,085	1,313	24.32
1956	5,219	3,915	1,304	24.99
1957	4,922	3,645	1,278	25.97
1958	4,816	3,469	1,347	27.97
1959	4,518	3,216	1,302	28.82
1960	4,544	3,141	1,403	30.88
1961	4,631	3,076	1,554	33.56
1962	4,502	2,902	1,600	35.54
1963	5,055	3,058	1,997	39.51
1964	4,927	2,984	1,942	39.42
1965	4,807	2,876	1,930	40.15
1966	5,169	2,981	2,188	42.33
1967	5,118	2,915	2,203	43.04
1968	4,860	2,723	2,137	43.97
1969	4,569	2,420	2,119	46.38
1970	4,779	2,212	2,566	53.69
1971	5,493	2,020	3,472	63.21
1972	5,005	983	4,022	80.36
Unclassified	336	295	42	12.50
Total Series E	187,192	137,072	50,120	26.77
Series H (1952 thru May, 1959) 3/	5,485	3,926	1,558	28.40
H (June, 1959 thru 1972)	8,769	2,870	5,900	67.28
Total Series H	14,254	6,796	7,458	52.32
Total Series E and H	201,446	143,868	57,578	28.58
All Series: Total matured	38,278	38,240	37	.10
All Series: Total unmatured	201,446	143,868	57,578	28.58
All Series: Grand Total	239,724	182,108	57,615	24.03

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.

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

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FOR RELEASE IN PM'S
THURSDAY, JANUARY 11, 1973

EXCERPTS FROM REMARKS BY JAY N. WOODWORTH
DEPUTY TO THE ASSISTANT SECRETARY OF THE TREASURY
FOR ECONOMIC POLICY
BEFORE THE SERTOMA CLUB OF CHATTANOOGA
CHATTANOOGA, TENNESSEE
JANUARY 11, 1973, 1:00 P.M. EST

The business outlook for 1973 could not be much better. We enter this year with a great deal of momentum, as reflected in the strong rise in real economic activity during 1972 of approximately 7-1/2 percent. I have heard many business economists express their views on the 1973 outlook in recent weeks, and their forecasts unanimously call for another large gain in real output, generally more than 6 percent. The pace of the current economic expansion, which began at the end of 1970, already exceeds the average rise in the other postwar business recoveries, and the prospects for 1973 suggest that a new record will be set before this year is out.

What is, perhaps, as important as the record-setting expansion in real output is that the rate of inflation has been significantly reduced. My wife and my non-economist friends would seriously question that statement, and understandably so, but among economists and others who watch the statistics closely there is wide agreement that both prices and wages are increasing at a slower rate than before the controls were put in place 17 months ago.

Since the Economic Stabilization Program began in August 1971 with the 90-day freeze, the consumer price index has risen at a 3.2 percent pace, which is pretty close to the Administration's goal of slowing inflation to 3 percent or less by the end of 1972. This slower rise contrasts with the high 6.1 percent increase in the CPI during 1969, 5.5 percent during 1970, and 3.8 percent for the 8 months of 1971 leading up to the freeze.

Virtually all other measures of prices have demonstrated a similar slowdown. The so-called gross national product price deflator, for example, which is the broadest measure available of inflation throughout the U. S. economy, has slowed to a 2-3/4 percent pace over the life of the stabilization program. This compares with a 5 percent rate from 1969 through early 1971.

On the wage side, the various measures of compensation show a marked slowdown. Throughout 1972, wage increases have consistently zeroed in on the Pay Board's 5-1/2 percent wage standard.

Although this record of our fight against inflation is encouraging, nobody has yet declared a victory against the disease. Indeed, there is considerably more work that remains to be done this year in combating excessive price and wage increases.

One area that has been a persistent sore to the stabilization program has been food prices. The large rises in Americans' grocery bills have far outstripped the price increases of non-food items. Most agricultural products are exempt from price controls, because we believe it would be impossible to arrest increases in farm prices without a giant price-controls bureaucracy and without stiff rationing. Even so, "black markets" for many foods would appear in short order. Instead of these panic-button actions, the Administration has gone the route of trying to increase domestic food supplies. In fact, we need to increase production to meet the large demands for food in world markets. This will be one of the continuing challenges of 1973, but I think we can make real progress.

The benefits from our new less-inflationary environment are becoming increasingly widespread. From 1965 through 1968, the American worker was on a treadmill, scoring only small increases in his real wages. Since August 1971, however, his real wages have risen at a rapid 2.8 percent pace. This represents real progress against inflation -- progress that the Administration is committed to maintain.

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STATEMENT OF WILLIAM E. SIMON
BEFORE THE SENATE FINANCE COMMITTEE
10 A.M., THURSDAY, JANUARY 11, 1973

Mr. Chairman and members of this distinguished Committee, I am here today as the President's nominee for the post of Deputy Secretary of the Treasury.

As my biographical statement will show, I was born in Paterson, New Jersey, and attended Newark Academy in Livingston, New Jersey. In 1951 I received a Bachelor of Arts degree from Lafayette College in Easton, Pennsylvania.

I began working with Union Securities in 1952 and in 1955 became Assistant Vice President and Manager of the Municipal Trading Department.

From 1957 to 1964 I served as Vice President of Weeden and Company, after which I joined Salomon Brothers & Hutzler. In October of 1964 I became a Partner and in 1970 an Executive Committee Member of the firm. I served in these posts until nominated by the President to become Deputy Secretary of the Treasury on December 7, 1972. My resignation from Salomon Brothers will become official upon my confirmation by the Senate.

In the past, in managing the Public Finance Division of the Investment Bankers Association, I have been privileged to work with your Committee, and I have benefited greatly from our exchange of views. I intend, as Deputy Secretary, to work closely with you and your outstanding staff as well as with your colleagues in the Senate.

In accordance with your procedures, I have provided the Committee with a biographical statement as well as with a copy of the blind trust agreement under which my financial assets are managed by Morgan Guaranty Trust Company of New York as Trustee.

Upon the announcement of my nomination, I removed myself immediately from any and all economic interests in Salomon Brothers. I also resigned from all outside directorships and related responsibilities. Finally, I have also supplied the Committee with a letter from my attorney, Howard G. Wachenfeld of Lum, Biunno and Tompkins, 550 Broad Street, Newark, New Jersey, which provides his opinion that my financial arrangements are in conformity with the conflict of interest statutes.

All of my personal assets, including the cash settlement from Salomon Brothers, have been turned over to the blind trust. I have placed restrictions on the trust even more severe than what is required to comply with the letter of the law and have restricted the Trustees so that they cannot invest in U.S. Government or agency securities.

I stand ready to respond to any questions which you may have.

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STATEMENT OF EDWARD L. MORGAN
ASSISTANT SECRETARY OF THE TREASURY DESIGNATE
FOR ENFORCEMENT, TARIFF AND TRADE AFFAIRS, AND OPERATIONS

BEFORE THE SENATE FINANCE COMMITTEE

January 11, 1973 10:00 AM EST

Mr. Chairman and members of this distinguished committee, I am here today as the President's nominee for the post of Assistant Secretary of the Treasury for Enforcement, Tariff and Trade Affairs, and Operations.

As my biographaphical statement will show, I was born in Lorain, Ohio, on March 6, 1938. A few years later my family moved to Tucson, Arizona.

I attended the University of Arizona where I received a Bachelor of Arts degree in political science in 1960 and an LLB in 1963. I was admitted to the State Bar of Arizona in 1963 and was president of the Young Lawyers section in 1968-1969. I am also a member of the American Bar Association, the Federal Bar Association, the State Bar of Arizona, and the District of Columbia Bar and have been admitted to practice before the Supreme Court of the United States.

Upon graduation from college, I served in the United States Army, Adjutant General's Corps,and was honorably discharged in 1965 with the rank of Captian.

After leaving the service, I joined the law firm of Gust, Rosenfeld, & Divelbess in Phoenix, Arizona, and remained with that firm until January, 1969, when I joined the President's staff at the White House as Deputy Counsel to the President. In October of that year, I was promoted to the post of Deputy Assistant to the President for Domestic Affairs and also held the post of Assistant Director of the President's Domestic Council. The President appointed me to the Council of the Administrative Conference of the United States in 1969. In 1970, the President designated me as Vice Chairman of the Conference. During 1971, until my nomination to be Assistant Secretary of Treasury, I have also served as Executive Director of the President's Cabinet Committee on Education.

In accordance with your procedures, I have provided the Committee with a biographical statement and a financial

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statement of assets and liabilities.

I will be happy to answer any questions you may have.

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BRIEF BIOGRAPHY OF EDWARD L. MORGAN

Mr. Morgan was born in Lorain, Ohio, March 6, 1938. A few years later his family moved to Tucson, Arizona. He attended the University of Arizona (at Tucson) where he was a member of Phi Gamma Delta social fraternity and Phi Delta Phi legal fraternity. He received a B.A. in Political Science in 1960, was awarded the Freeman Award as the University's outstanding male graduate. He received his LLB in 1963 and was admitted to the State Bar of Arizona the same year. He was President of the Young Lawyers Section in 1968-69. Mr. Morgan is a member of the American Bar Association, the Federal Bar Association, and the State Bar of Arizona. He is also a member of the District of Columbia Bar Association and has been admitted to practice before the Supreme Court of the United States.

Shortly after graduation, Mr. Morgan entered the armed services of the United States, where he served in the Adjutant General's Corps. He received an honorable discharge in 1965 with the rank of Captain.

After his discharge from service, Mr. Morgan associated with the law firm of Gust, Rosenfeld & Divelbess in Phoenix, Arizona, and remained with that firm until January, 1969, when

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he joined the President's staff at the White House as Deputy Counsel to the President. In October of that year he was elevated to the post of Deputy Assistant to the President for Domestic Affairs and also holds the post of Assistant Director of the President's Domestic Council. The President appointed Mr. Morgan to the Council of the Administrative Conference of the United States in 1969. In 1970, the President named Mr. Morgan to the post of Vice Chairman of the Conference. During 1971 to present, Mr. Morgan has also served as Executive Director of the President's Cabinet Committee on Education.

Mr. Morgan is single, and has a daughter by a prior marriage.

JANUARY 11,1973

Department of the TREASURY NEWS
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FOR IMMEDIATE RELEASE January 11, 1973

RECORD CHANGERS FROM THE UNITED KINGDOM
ARE NOT BEING SOLD AT LESS THAN
FAIR VALUE UNDER THE ANTIDUMPING ACT

The Treasury Department announced today a final determination that record changers from the United Kingdom are not being, nor 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 Friday, January 12, 1973.

A "Notice of Tentative Negative Determination" was published in the Federal Register of November 2, 1972. This notice invited interested persons to submit written views or arguments, or requests for an opportunity to present their views orally. No submissions or requests were received.

During the period of January through September 1972, imports of record changers from the United Kingdom were valued at approximately $48 million.

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Department of the TREASURY NEWS

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ADVANCE FOR RELEASE
AMs Sunday, January 14, 1973

TREASURY AGENTS SEIZE $16 MILLION FROM DRUG TRAFFICKERS DURING 1972

-Treasury/IRS Narcotics Trafficker Program

The Treasury Department released today calendar year 1972 statistics for the Treasury/IRS Narcotics Trafficker Program which show that during the year the program became fully operational, nationwide in scope, and began to impact significantly on the narcotics trade by seizing the working capital and illegal gain of narcotics smugglers, financiers, and traffickers.

During 1972, Treasury Agents and support personnel of the Internal Revenue Service:

(1) seized and collected nearly $16 million from narcotics traffickers (See Table II),

(2) made assessments of $72,880,286 against 298 major targets and 1,406 minor targets (See Table II),

(3) selected an additional 907 major targets- thereby increasing the number of major target tax investigations to 1,235. In addition, 1,406 minor targets are under tax action (See Table I),

(4) referred 137 cases to the Justice Department for criminal action, and

(5) expanded the program to 46 states and 82 metropolitan areas- an increase of 20 states and 45 metropolitan areas (See Table I).

22 Convictions + 41 Indictments + 74 Prosecution Recommendations= 137

Of the 137 cases referred to the Justice Department, 22 cases resulted in convictions on criminal tax charges. At year's end, 41 other criminal tax cases were pending in Federal District Courts in Atlanta, Miami, Detroit, Los Angeles, San Francisco, and in other areas; and another 74 cases were awaiting grand jury action. (See Table III).

At year's end, 560 Treasury Agents and 112 support personnel were conducting these investigations. The number of agents will increase to 648 during 1973 due to the passage of a supplemental appropriation of $4.5 million proposed by the President in the fall of 1972 and passed with full bipartisan support by the Congress.

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TATE	METROPOLITAN AREAS	TARGETS	COMPLETED INVESTIGATIONS
ississippi	Gulfport	3	8
issouri	St. Louis-Kansas City	18	
ebraska	Omaha	3	
evada	Las Vegas-Reno	5	
ew Hampshire	Portsmouth	2	2
ew Jersey	Newark-Camden-Trenton	52	10
ew Mexico	Albuquerque	4	5
ew York	Albany	12	1
	Buffalo-Rochester	15	3
	New York City	88	55
orth Carolina	Greensboro-Charlotte	18	3
hio	Cincinnati-Dayton-Columbus	17	
	Cleveland-Toledo	27	
klahoma	Oklahoma City	3	
regon	Portland	18	4
ennsylvania	Philadelphia	55	3
	Pittsburgh	35	6
hode Island	Providence	6	
outh Carolina	Columbia	4	2
outh Dakota	Aberdeen	1	
ennessee	Nashville-Memphis-Chattanooga	6	
exas	Austin-Houston-El Paso	34	13
	Dallas-Ft. Worth	7	2
tah	Salt Lake City	6	
irginia	Richmond-Norfolk	27	2
	Arlington-Alexandria		
ashington	Seattle	20	5
est Virginia	Parkersburg	1	
isconsin	Milwaukee	6	1
		907	244

ffice of Law Enforcement
reasury Department

DEPARTMENT OF THE TREASURY TABLE I

TREASURY/INTERNAL REVENUE SERVICE NARCOTICS TRAFFICKER PROGRAM

RESULTS FOR CALENDAR YEAR 1972

STATE	METROPOLITAN AREAS	TARGETS	COMPLETED INVESTIGATIONS
Alabama	Mobile	13	2
Alaska	Anchorage	1	1
Arizona	Phoenix-Tucson-Yuma	54	9
Arkansas	Little Rock	3	
California	Los Angeles-San Diego	24	21
	San Francisco-Oakland	24	7
Colorado	Denver	10	2
Connecticut	Hartford-Bridgeport	13	2
Delaware	Wilmington	1	
District of Columbia	Washington	18	5
Florida	Miami-Jacksonville Tampa-Orlando	53	23
Hawaii	Honolulu	6	1
Georgia	Atlanta-Augusta	21	13
Illinois	Chicago-Springfield Peoria	57	9
Indiana	Indianapolis-Gary	9	2
Iowa	Des Moines	4	
Kansas	Lawrence	1	
Kentucky	Louisville-Covington Newport	6	
Louisiana	New Orleans	12	4
Maine	Bangor	1	
Maryland	Baltimore-Annapolis	13	4
Massachusetts	Boston	18	5
Michigan	Detroit	50	12
Minnesota	St. Paul-Minneapolis	5	

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TATE	METROPOLITAN AREAS	TARGETS	COMPLETED INVE[illegible]TIGATIONS
ississippi	Gulfport	3	8
issouri	St. Louis-Kansas City	18	
ebraska	Omaha	3	
evada	Las Vegas-Reno	5	
ew Hampshire	Portsmouth	2	2
ew Jersey	Newark-Camden-Trenton	52	10
ew Mexico	Albuquerque	4	5
ew York	Albany	12	1
	Buffalo-Rochester	15	3
	New York City	88	55
orth Carolina	Greensboro-Charlotte	18	3
hio	Cincinnati-Dayton-Columbus	17	
	Cleveland-Toledo	27	
klahoma	Oklahoma City	3	
regon	Portland	18	4
ennsylvania	Philadelphia	55	3
	Pittsburgh	35	6
hode Island	Providence	6	
outh Carolina	Columbia	4	2
outh Dakota	Aberdeen	1	
ennessee	Nashville-Memphis-Chattanooga	6	
exas	Austin-Houston-El Paso	34	13
	Dallas-Ft. Worth	7	2
tah	Salt Lake City	6	
irginia	Richmond-Norfolk	27	2
	Arlington-Alexandria		
ashington	Seattle	20	5
est Virginia	Parkersburg	1	
isconsin	Milwaukee	6	1
		907	244

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reasury Department

DEPARTMENT OF THE TREASURY TABLE I

TREASURY/INTERNAL REVENUE SERVICE NARCOTICS TRAFFICKER PROGRAM

RESULTS FOR CALENDAR YEAR 1972

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Alabama	Mobile	13	2
Alaska	Anchorage	1	1
Arizona	Phoenix-Tucson-Yuma	54	9
Arkansas	Little Rock	3	
California	Los Angeles-San Diego	24	21
	San Francisco-Oakland	24	7
Colorado	Denver	10	2
Connecticut	Hartford-Bridgeport	13	2
Delaware	Wilmington	1	
District of Columbia	Washington	18	5
Florida	Miami-Jacksonville Tampa-Orlando	53	23
Hawaii	Honolulu	6	1
Georgia	Atlanta-Augusta	21	13
Illinois	Chicago-Springfield Peoria	57	9
Indiana	Indianapolis-Gary	9	2
Iowa	Des Moines	4	
Kansas	Lawrence	1	
Kentucky	Louisville-Covington Newport	6	
Louisiana	New Orleans	12	4
Maine	Bangor	1	
Maryland	Baltimore-Annapolis	13	4
Massachusetts	Boston	18	5
Michigan	Detroit	50	12
Minnesota	St. Paul-Minneapolis	5	

TABLE III

RESULTS FOR CALENDAR YEAR 1972

U. S. Treasury Department
Office of Law Enforcement

Metropolitan Areas	Major Target Program: Number	Assessments	Dollars Seized	P.R.	I.	C.	Minor Target Program: Number	Assessments	Dollars Seized	Collections
Atlanta, Ga.	19	$ 461,866	$ 28,511	5	4	0	60	$ 541,879	$ 143,268	$ 67,872
Austin-Houston-El Paso, Tex.	19	1,895,399	54,220	2	2	0	116	1,777,593	853,700	
Baltimore, Md. - Washington, D.C.	10	1,000,862	-0-	2	1	6	13	238,834	44,879	195,026
Boston, Mass.	3	556,815	22,183	2	1	1	70	2,156,088	550,009	
Buffalo, N.Y.	3	16,383	-0-	1	0	0	21	154,450	87,012	
Cleveland, Ohio	-0-	-0-	-0-	0	0	0	14	723,280	115,877	
Chicago-Springfield, Ill.	11	311,713	16,850	6	3	0	83	2,539,818	196,983	
Detroit, Mich.	20	1,450,873	13,555	6	3	2	81	1,465,191	471,554	692,000
Charlotte-Greensboro, N.C.	3	163,933	15,249	2	0	1	39	358,639	63,517	15,136
Miami-Jacksonville-Tampa, Fla.	32	4,763,862	2,300	2	8	4	58	896,683	778,324	142,877
Los Angeles-San Deigo, Calif.	23	665,441	32,238	2	1	2	212	10,833,075	1,449,946	
Newark-Camden-Trenton, N.J.	15	3,721,619	1,656	0	2	2	30	1,536,868	881,459	
New York City	55	6,313,906	1,099,093	10	2	1	116	8,435,031	3,879,852	
Philadelphia, Penna.	5	206,195	16,000	0	1	0	50	794,162	343,394	
Phoenix-Tucson, Ariz.	14	520,486	34,720	5	1	2	68	1,570,771	375,731	
Pittsburgh, Penna.	6	378,614	2,843	7	1	1	14	471,116	133,843	8,144
San Francisco-Oakland, Calif.	18	1,038,690	79,684	5	3	0	72	2,673,389	575,518	
Seattle-Tacoma, Wash.	5	137,838	35,000	2	2	1	13	224,932	122,204	
St. Louis, Mo.	9	1,000,862	7,133	2	2	1	12	575,850	49,913	
Richmond-Norfolk-Arlington, Va.	4	143,734	11,274	1	0	0	7	264,880	15,836	
Other	24	3,457,158	122,286	2	4	1	257	8,082,665	2,114,443	
Totals	298	$26,565,092	$ 1,594,795	74	41	22	1406	$46,315,194	$ 13,247,162	$ 1,147,950

Dollars Seized includes both property and currency
P.R. - Cases Recommended for Prosecution
I. - Criminal Cases in U. S. Courts awaiting Trial
C. - Criminal Convictions

Table II

Calendar Year 1972 Results of the Treasury/IRS
Narcotic Traffickers Program

	Number	Amounts
Major Target Assessments:		
Regular Assessments	221	$12,368,944
Jeopardy Assessments	43	6,390,122
Tax Year Termination	34	7,806,026
Total	298	$26,565,092
Minor Target Assessments:		
Jeopardy Assessments	95	$ 2,920,898
Tax Year Termination	1311	43,394,296
Total	1406	$46,315,194
Total Assessments involving Narcotic Traffickers		$72,880,286

Seizures involving Narcotic Trafficker:

	Major Targets	Minor Targets
Currency	$1,578,916	$11,111,133
Property	15,879	2,136,029

Total Dollars Seized & Collected	$15,989,907
Cases Recommended for Presecution	74
Criminal Tax Cases in U. S. Courts awaiting Trial	41
Criminal Tax Conviction	22
Total Criminal Cases	137

Treasury Department
Office of Law Enforcement

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SECRETARY GEORGE P. SHULTZ

LUNCHEON

Jan 8, 1973

U.S. DEPARTMENT OF THE TREASURY

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SECRETARY GEORGE P. SHULTZ: Do you know how many -- what the dollar volume of outstanding savings bonds is?

MAN: Not right off-hand, I wouldn't.

SECRETARY SHULTZ: I was astounded. $58 billion worth.

MAN: Sales still are out -- outrunning the redemptions, right?

SECRETARY SHULTZ: Yes, they are. But anyway, if you're sort of getting started on our annual drive or something...

MAN: What's the average rate of return on the savings bonds currently being sold, George?

SECRETARY SHULTZ: Well, I think it's five and a half percent, isn't it? That's the -- now, of course, the rate of return you actually get depends upon how long you hold the bonds. And if you cash it in right away, of course there's no return. But that was upped, and so that I think now, from the standpoint of the individual, it is a reasonably competitive rate, whereas there was a time when it wasn't...

MAN: Uh-huh.

SECRETARY SHULTZ: ...such a good deal.

MAN: So you'll still be in the bond market.

SECRETARY SHULTZ: Yes.

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[Laughter]

SECRETARY SHULTZ: I've never been in it without it soaring.

[Laughter]

MAN: George, I don't know how you usually handle these luncheons. Are we formal and on the record from now on?

SECRETARY SHULTZ: [Unintelligible] what we have...

[Laughter]

MAN: Is that savings bonds figure on the record?

[Laughter]

SECRETARY SHULTZ: It is.

MAN: Well, we accept the same rules [phrase unintelligible].

SECRETARY SHULTZ: The trouble with having direct quotation when we have a rambling luncheon-type discussion is that my syntax and everything is liable to get so bad that I'm ashamed of -- of it. But...

MAN: Thank you.

SECRETARY SHULTZ: ...if somebody has a direct quote that you think is -- could come to feel is of real interest, then if you could check it with Jim Donnelly, why, maybe we can do that.

MAN: Well, if nobody else leaps in, I will, George, to ask you a starter. I'm going to take an eas; one. I was going to ask how you saw the wage/price control future.

SECRETARY SHULTZ: Well, we will -- the President has stated his intention to ask for an extension of the act.

Thank you.

The President stated his intention to ask for an extension of the act. And we will do that. He has stated his intention to follow monetary and fiscal policies that are consistent with reasonable price stability, to behave in government, insofar as government wage rates are concerned, in a manner that is consistent, and has instructed us to consult widely about what within that framework makes sense in -- in a control mechanism

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that will be, as he has put it, the most effective use of the controls that we can come up with for the coming period.

And we have now consulted with over 400 people in one way or another. We had a meeting with the joint congressional leadership Friday morning, part of which was devoted to this subject. And I think we now feel that we've more or less completed the consultation stage -- not that we aren't ready to hear further ideas if anybody has them, but on the whole by this time I would say as -- as people do rush in with something that they feel is a bright observation that we -- by and large, by this time we've heard it before. That is, after a while things start repeating and there's only so much to be said and it's been said. So we are now at that stage. And sometime before long the President will decide what he thinks the right structure of the control system is, and also what he thinks the right recommendation to Congress, more precisely, is on the Economic Stabilization Act.

Now, the act as it's written is permissive of a fairly wide range of possible control systems. It was addressed to the one that was put in place in Phase II, but it -- it permits quite a lot of variation. And we are considering -- all of the things that people have suggested that might be done are do-able within the framework of the act, that is, the act we have.

MAN: Well, do you think, Mr. Secretary, you'll just ask for an extension of that -- of the act that is expiring? Or will you come up with specific...

SECRETARY SHULTZ: Well, if you ask me what is the President going to decide, then I have to say wait and see. And I don't know; he hasn't decided yet.

MAN: What do you recommend...

SECRETARY SHULTZ: But we know that -- we know that our problems are in food prices. If you -- you've -- I'm sure you've all looked through the various price indices...

MAN: Uh-huh.

SECRETARY SHULTZ: ...and seen that, for example, if you take year over year the most recent year on the GNP deflator and take private nonfarm as compared with the prior year that they were down to one and a half percent the most recent full year, whereas food is up 20 percent or something like that. In other words, if you look at an overall average only, you

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don't see the nature of the problem. So food is a problem.

We think that the medical area constitutes a problem -- not that the prices don't seem to have come down in their rate of increase a little bit, but the costs haven't; and you have a sort of a classic control-type problem where the services rendered change and you don't make the impact on cost, which is what people really care about, that you think you are. So we see that as a problem. And...

MAN: George, wouldn't this be an appropriate...

SECRETARY SHULTZ: In some ways, the analysis, I think, is kind of un-Galbraithian. That is, the typical analysis is your problems are with big units, but that isn't -- if you -- if you look at the price performance, that isn't where the problems are, big labor and big management.

MAN: Interest rates are never mentioned in this recitation. Are you pretty happy with the way the controls have worked on interest rates?

SECRETARY SHULTZ: We had a -- we've thought a lot about that. And Arthur Burns convened a meeting of financial people to discuss the question of whether the Committee On Interest And Dividends was a -- a useful device. The general impression seemed to be that it was. And we have -- feel that we've gotten some use out of it. And certainly that's an area that can stand continued scrutiny.

MAN: In your talks with the 400 on -- on the structure of Phase III...

SECRETARY SHULTZ: I would say the construction area is one where we've had, we think, quite a lot of success. And the -- that seems to be going on pretty well.

MAN: In your talks, what main points have emerged, as you talked with a range of people, labor, business, congressional leaders, and so on?

SECRETARY SHULTZ: Well, first -- and perhaps this is a compliment to you fellows -- I think the whole exercise that we've gone through over the last four years, all the debate and argument and so on, has tended to improve the level of economic literacy in that -- perhaps I'm just commenting on my own view of this, but it was interesting to me the number of people who came in and said, "Well, we're going to make comments about the controls system. But if the government can't discipline itself and have a reasonable budget policy and a reasonable

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monetary policy, you can forget it, because there isn't any way that the control system will contend with undisciplined government behavior on fundamental matters." And honest to goodness, I didn't prompt anybody to say that, but people say that all the time. And so I -- I think that is one thing.

There is a -- I think a -- certainly from the comments a lot of awareness of the costs of the controls program as well as the benefits, from both labor and management comment on that -- the anomalies created by price controls and profit margin controls (you can have endless examples of them); the delays and difficulties and the potential debilitation of -- of the collective bargaining process that goes with too long adherence to wage controls, and so on: these kinds of problems are on people's minds. At the same time, I would say, with a few exceptions, there was very general agreement with the President's notion that we should continue some form of controls for now and not, say, drop the whole thing, for -- for example; there were very few people that suggested that. There were some people that suggested that. So that in a sense people said, "Well, here are problems, and we see lots of them, but don't get so bowled over by the problems that you drop the whole enterprise. The -- the task is to so construct the system, or reconstruct it, so that we -- we manage to get away from some of these problems and still preserve the -- the benefits that we have been getting from it."

MAN: George, were you...

SECRETARY SHULTZ: There were lots of particular things. The people come and they have some -- often they have some particular thing that affects them and they want to beef about it, and so we have those; but those aren't of interest here.

MAN: Do your profit margins [words unintelligible]?

SECRETARY SHULTZ: Well, what -- what the President decides to do we'll see. I -- I don't want to prejudge that.

MAN: What're -- what are your options on -- if I can put it this way, what are your options on food?

SECRETARY SHULTZ: There are two dimensions, I think, to options about anything. One dimension is procedural. And the other is substantive. On the -- on the procedural side, that has to do with the process through which whatever controls, or whatever, are generated. And the question is, can you construct a procedure that, on the one hand, taps the insight and the knowledge of people who know the most about the subject, and, on the other, by virtue of that tapping enlist the maximum possible

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responsiveness to whatever the outcome is? That's one element of procedure I think that we -- obviously, the whole argument in the labor-management side about tripartitism is the -- is the same kind of thing. And then the other procedural element has to do with government policy. And in many ways in this field we have -- we have government policy on controls trying to hold prices down, and we have government poli -- other ranges of government policies trying to get prices up in the agriculture area. And we need to sort of mediate between these two legitimate objectives, one having to do with farm income and the other having to do with -- with consumer prices. And we need procedures for that.

MAN: Well, wouldn't this be an appropriate time to do something on the agricultural front? Farm income is up. Farm prices are up a hell of a lot. And every good economist including you and all your old colleagues have talked for years about reforming agricultural programs. Arthur Burns has now said this. Is that something that you would consider on the agenda for the year?

SECRETARY SHULTZ: Well, the -- I think the trick is to -- if -- if this is true, to take advantage of the situation where demand has risen greatly and see if we can't have arrangements that will allow income to stay high through serving expanded demand, rather than through curtailing supply. And of course the present programs give opportunities for that within at least some limits. But we have -- for example, I think that the -- the extension, the -- the increase in acreage allotments that has taken place in the continuation for the year 1973 of suspension of all quantitative restrictions on the import of meat are two examples of -- of policy actions that we have some control over. But I think this can -- this can all be done if we can devise a way to do it without destroying the accomplishments in getting farm income up. If you drop back on that, then you wind up undoing all the things you've been trying to do.

MAN: Of course you could put direct controls on raw agricultural products. But I guess that's out -- that's out.

SECRETARY SHULTZ: You could do it procedurally, whether you could do it effectively, or whether you would get a result that would be desirable -- but we felt the answers to those last two questions are no, you can't. And I don't see any -- I've yet to hear a reasonable argument in the other direction; and we find anomalies of one kind or another every time you try.

MAN: George, how do you react to the profit margin rule argument? Many businessmen are arguing now that they're

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being badly hampered, and productivity's being hampered, by the profit margin rule. Do you see merit in that case? And if so, what kind of a profit margin rule change could you imagine?

SECRETARY SHULTZ: Well, I think it's just a matter of common observation, which only confirms common sense, that if you put people in a position where their profits are constrained and they're right up against the constraint, they will -- they will ease off in their efforts to control costs. Which is just exactly what we don't want to see happen. And that has always been what's happened when you -- when you had a long-term constraint that was tight. And I think by and large people understand that.

The question is whether or not there is some way to use profit constraints on a temporary basis, so that you don't -- so that people don't make long-term changes that would in the long-term be bad for them in order to meet something that you define as not lasting for very long. And that's been the strategy right along. The -- but I think that the -- these counterproductive practices are emerging, and probably if people began to think that we had a permanent system of profit controls they'd emerge in a great rush. So we have to avoid that.

I -- the business community was very hot for controls, as you know. They have mostly felt that what needed to be controlled was labor, but I think they have discovered that in a political democracy it's pretty hard to control one element of the picture without doing something about the other. And you get driven to [inaudible due to coughing] the profit side. However what we're really interested in controlling is prices. And we're really interested in controlling it through the market and using the overlay of a control system as much as one can to accomplish that.

MAN: When might the -- the -- well, when might the -- this -- the President's proposal be going to the Hill? And do you have any doubt that the Congress will approve an extension of the -- of the act and your -- your ideas?

SECRETARY SHULTZ: Well, I've talked to quite a large number of people on the Hill. There's been, I -- I think it's fair to say, a generally favorable response to what the President's requested. But they're waiting for specifics, both in terms of what exactly is he going to request in the legislation and what exactly is going to be put in place. And I think it appeals to people in the Congress, as I've experienced it, anyway, that the President should put in place whatever it is he thinks is the right system for the coming year and have it there so it can be looked at, pointed to, and examined as you consider what

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to do with the legislation, rather than say, "If the legislation is extended, then we would contemplate possibly doing this or possibly doing that or possibly doing something else." It would be preferable as far as they're concerned to know just what it is that the President would do.

I don't, on the other -- I -- quite a few have said to me -- others would perhaps have a contrary view, but quite a few have said to me that they feel it is a mistake to try to write a highly detailed blueprint for a control system in legislation; that that is a -- not a desirable route; that there has to be some administrative flexibility. But I will not attempt to speak for the Congress; they speak for themselves continuously and in all wisdom.

MAN: Did you get in your talks with congressional leaders any linkage between extension of controls, on the one hand, and the conflict over impoundment?

SECRETARY SHULTZ: Not particularly -- except that of course to the extent that the Congress accepts the idea that the federal budget has something to do with the problem of -- is an -- is an economic matter of significance and that it's possible for it to be too big, there is a joining of the issue, not so much in terms of the legalities of the impoundment process, but how do we construct an executive-legislative process that comes out somewhere on purpose. And the joint committee that was formed, or was put into place as a result of the -- in the debt ceiling legislation, I hope will really come to grips with this hard. And the President has instructed me and everybody else that I know of that we should be as cooperative as we possibly can be with that congressional effort. If there's anything they want from us, we'll provide it -- without trying to tell them how to do their job. But I think -- I think that's the essence of the problem, rather than the sort of technical debate level that it's been put on.

[Several men begin to speak at once.]

SECRETARY SHULTZ: You see, the Congress, both houses of the Congress, voted that it would be desirable to hold outlays in fiscal '73 to 250 billion. They both voted that. Where it was not possible to finish that bill off was on the how do you get to that desirable objective. However in the bill itself there is included a whole section telling what -- the President what he should do when he impounds funds. So we consider that the bill, on the one hand, endorses the objectives and, on the other hand, acknowledges implicitly that the President is going to impound funds.

MAN: Mr. Secretary, this committee that provided

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for it, joint committee on the debt ceiling -- isn't that rather moot, though, now in the budget? The Senate never got around to appointing their members until last week. And as a matter of fact, by the time they get to having any sessions at all -- they haven't elected a chairman over there yet -- they'll be more concerned with the budget for fiscal '74 than for fiscal '73; that'll be a thing of history by then to a large degree.

SECRETARY SHULTZ: Well, I think that the Congress...

MAN: And the thing is only temporary, if you recall.

SECRETARY SHULTZ: Well, it is, but...

MAN: There's no date for it beyond...

SECRETARY SHULTZ: No, there is a date set, I believe, for when the committee is supposed to report to the Congress.

MAN: Yes. But they had to change that. And now the best they can hope for is some sort of an interim report by February 15th.

SECRETARY SHULTZ: Well, I would hope they would keep the pressure on themselves. Everyone agrees that there is a big problem there, and it's up to the Congress to solve it. And I was asked on a number of occasions in testimony did I think it was a desirable way to proceed to -- to get to the 250 billion by herioc action taken on the part of the President. And I -- I responded that no, I didn't think that was a desirable way to proceed, but it was necessary under the present circumstances because the desirable way didn't yield a desirable result, and that the -- the process needed to be reconstructed so that there was some chance of getting to a desirable result.

See, there's always this discussion about priorities. Everybody wants to argue about priorities. Well, I -- I do, too. And I think that's a good argument. And -- and it is sort of the essence of the budget process. But the way in which the -- the budget is done by the Congress is not a priority-setting method at all. It just takes each piece as it comes and votes more or less or whatever. And you only set priorities if you say, "Here is what the total is going to be. And now within that total, where are we going to go?" And that means that desirable as A may be, we're either going to do without A, or without B, or without something, in order to reach the total. That's what priority setting is.

MAN: All right. But wouldn't you agree that the overall end is not a given expenditure level necessarily but

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a given overall fiscal policy. I noticed in your response to the letter from Jack Javits that you said the administration is thinking about the tax side of the budget as well as the expenditure side for next year. Do you see some opportunities for raising additional revenues out of a tax reform proposal?

SECRETARY SHULTZ: No.

MAN: Even in any of these areas like capital gains at death and...

SECRETARY SHULTZ: Well, there are all kinds of ways in which you could change the tax system that would raise revenues. The -- the President's view is that we are heavily taxed enough, and that if we have a -- if we have tax changes that rearrange things, they -- that's what they should do: they should rearrange things, and not result in a net tax increase. In other words, the way to solve the budget problem is not to take more money away from the American people but to do a better job of disciplining government spending. And I must say I -- I think that the political forces are all in that direction; that, in other words, even if you wanted to raise taxes, you'd have a darn hard time doing it.

MAN: Well, taxes are going up nevertheless for a lot of people this next month, something like $11 billion as a result of Social Security increases. Just within the given tax deal, do you think there ought to be shifts in the interest of combating regressivity?

SECRETARY SHULTZ: Well, as you may remember, much to everyone's surprise the President was -- cautioned against the 20 percent increase in Social Security and the increase in taxes. We went along with it once it got done. But I think that the continuing increase in payroll taxes represents a problem. And when people blithely increase benefits they'd better be thinking about that. And we called that to everyone's attention very strongly.

MAN: Mr. Secretary...

SECRETARY SHULTZ: See, we get more and more in the position there where you -- you -- you have to say we -- we have in the federal budget a gigantic transfer mechanism from those who are working to those who aren't working, and it's the scale of it is staggering at this point. And one has to -- to question that scale, and also question the methods used to raise the money.

MAN: Coming back to the controls subject for a moment

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-- did I understand you to say that you felt that the new controls, whatever they might be, should be, in effect, [word unintelligible] by the Congress, or do you think some congressmen have felt that?

SECRETARY SHULTZ: Well, I'm saying that the -- the possibility that the President would make up his mind about the structure of the control systems that he thinks is the most effective for 1973 fairly promptly, so that when they are considering this, there it is, that's very attractive to a lot of congressional people.

MAN: Do you anticipate, then, in -- what? the next few weeks or months that the shape of this will be announced by the White House?

SECRETARY SHULTZ: Well, I don't want to -- to make any statement that hems the President in in time or substance. And he's got this matter now; we've finished our consultations, we're getting our material to him, and he's going to have to decide what he decides.

MAN: In your recent golf sessions with George Meany, have you gotten any indication whether he's going to accept the invitation to suggest names for sub-secretary posts?

SECRETARY SHULTZ: It's been too cold lately for golf.

[Laughter]

But...

MAN: I didn't mean to limit the question to the golf course. I'm asking in a general way do you think that he will...

SECRETARY SHULTZ: Well, I -- I...

MAN: ...accept that invitation.

SECRETARY SHULTZ: Well, I've always made it a policy not to try to speak for George Meany...

[Laughter]

...because he speaks for himself. And so he will say whatever he wants on that. But my -- my general impression is that he's not going to just sort of give you a list of 50 names to choose among, or something like that, but if there is a job that you want him to think of possible names for, why, he'll -- he'll be cooperative; he always has been. And I've

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talked to him about possible people for one thing and another a great deal when I was Secretary of Labor. And so I don't see what's so different.

MAN: Well, wasn't it clearly that specific a request for names for [word unintelligible] jobs?

SECRETARY SHULTZ: Not that I know of.

MAN: Who's the better golfer?

[Laughter]

MAN: You mentioned that you were impressed with the weight of the burden of the Social Security tax without any suspensions or reductions for low-wage workers, even without a national health insurance program. Is the administration coming around to the idea of tapping the Treasury for some of the revenues to support these programs?

SECRETARY SHULTZ: No. I don't want to suggest any administration position, but it does seem to me that the size of the payroll taxes now is a -- is quite substantial. And one needs to think about that fact as you consider other...

MAN: Is the administration against tapping the Treasury revenue -- Treasury for revenues for this proposal?

SECRETARY SHULTZ: We're not taking a position on that at this point. That is, we're thinking over these things, and I'm not ready to pounce.

MAN: Well, is the administration developing proposals in any other direction for reducing the regressivity of the Social Security tax?

SECRETARY SHULTZ: We have been reviewing the tax system. I guess the Treasury does that perpetually. But, anyway, since I've been here in June we've had an intensive effort going on reviewing comprehensively our experience with the tax changes. I think that's an important thing: there's -- there've been terrific changes in '69 and '71. And so the question is, what happened as a result of that? And we've been trying to figure that out as best we can, and then review a wide range of possible changes that have been suggested or can be thought up. And we haven't finished that process.

MAN: Has your job of getting down to 250 billions been substantially worsened by the resumption of bombing when

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the peace talks broke down?

SECRETARY SHULTZ: Well, the -- obviously that costs money. But that whole Vietnam situation is in a very delicate negotiating state, and I aspire not to have anything whatever to say about it that might cause Mr. Kissinger to have to spend an extra half an hour explaining it away or something, so I'll just pass on that.

MAN: Well, this I don't think will embarrass Mr. Kissinger, being a straight fiscal question. Are you still holding to the $250 billion ceiling? Which would imply that if defense expenditures did rise as a result of whatever happened, that something else would have to go down even further than presently planned.

SECRETARY SHULTZ: Well, I wouldn't -- I wouldn't accept all the internals of your question but to say that the President intends to send up a fiscal '73 budget within the $250 billion limit.

MAN: What happened to the President's statement that he would -- he would talk about a tax reform program before the end of '72?

SECRETARY SHULTZ: Well, we did talk about...

MAN: Or send up a program I guess maybe is a better way of putting it.

SECRETARY SHULTZ: Well, there was nobody up there to -- there was nobody there to send it up to, but we did ask the Advisory Committee on Interngovernmental Relations to reflect on a set of proposals, as you know. And they have done that, and there was a meeting about a month ago, I believe, or something on that order, and we did not only listen to the suggestions that were put forward there -- we did put forward some of our own, which were not greeted warmly, but nevertheless they were put forward. And I think in the light of their reactions that we have to -- to think about that some more. We are also trying to coordinate our efforts with those of the Congress and gain from whatever hearings the Congress may hold, as well as contribute. So beyond the proposals for a federal circuit-breaker or for a -- support for state circuit-breakers, on the one hand, and the aid to private school on the other, we haven't put forward any explicit proposals -- beyond the most important tax proposal: namely, keep taxes down by keeping spending down.

MAN: If it became obvious that there is needed a

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tax increase in '74, or even '75, would you rather Congress hold off...

SECRETARY SHULTZ: I think it's quite obvious we're not going to have a -- a tax increase that will have an impact in fiscal '74.

MAN: What about '75?

SECRETARY SHULTZ: That's a -- that's a long way away. And -- and we think the way to proceed is to have discipline on spending; that the federal budget is gigantic, and if any -- if people really mean what they say about priorities, we ought to be able to find a way to do the things people want to do within this gigantic sum.

MAN: Well, on -- on tax reform, Mr. Secretary, Ways and Means obviously is going to have some tax reform hearings.

SECRETARY SHULTZ: Right.

MAN: Early -- probably fairly soon. Now, do you visualize your sending up of your own suggestions, your own reform program?

SECRETARY SHULTZ: Well, we'll have to see...

MAN: In time for...

SECRETARY SHULTZ: ...what will be most helpful in the hearings process as the Ways and Means Committee decides to put it forward. And I don't know that they have determined that precise format yet. But we're in the position of wanting to work fully and cooperatively with the committee in considering that issue.

MAN: Is there a rule of thumb -- and this could apply, I guess, to the increased bombing or to any sudden federal -- increase in federal spending, like, say, hurricane Agnes relief or something like this -- is there any point of time at which that increased spending, no matter what it is, has to be reflected in federal accounts? Or is it -- is there a lag of, say, six months, a year, or what, that at which -- at which point you just have to pony up the money, no matter how long?

SECRETARY SHULTZ: Well, if you spend it, you certainly have to pony it up.

MAN: Yes, but at what point in time?

SECRETARY SHULTZ: What we spend our time here doing

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is finding it so that it can be ponied up.

MAN: Right. But at what point in time do you actually have to put it on the books and -- and account for it? Obviously, the increased bombing is of course to be reflected in the current budget. But -- and I'm -- I'm asking the question on a really broad frame to include things like hurricane Agnes relief or any -- any sudden increase over -- over a normal level.

SECRETARY SHULTZ: There is a fairly good sized amount of room for maneuver within the budget, for the most part. Within defense, for example...

MAN: Certainly.

SECRETARY SHULTZ: ...we can move money from this account to that account with congressional approval, and that's all done in a proper way. And the same is true within other budgets, within limits. So that some sums, some changes, can be accommodated to without changing your total. Obviously, there comes a point when -- when the size can get so great that either you have to go back in and change the law or impound or do something like that in order to accommodate an increase someplace. And that is varied with the amount and the timing of things.

MAN: To keep fiscal '73 within 250 billion, how much more impoundment in billions of dollars is needed? And is there any room for maneuver in shifting programs -- not impounding, but shifting into another budget the next budget year?

SECRETARY SHULTZ: There's -- there is always some ability to shift funds from one budget year to the next. We've on the whole tried to -- at -- at a time when the economy was not moving as rapidly as it is now, if you remember, we tried to get as much spending as we could and we -- and we sort of took from the future and spent and speeded up construction projects and procurement and whatnot, which I think is a sound economic policy, and -- and are trying now to -- aside from this big impoundment exercise, to -- to try to cool at least some areas off.

MAN: Well, how do you make...

SECRETARY SHULTZ: So I think that that is -- that is a -- that is a process that you go through, and so there is some movement from one fiscal year to the -- the other. Now, as we look ahead, however, we see '74, fiscal '74, as on the whole a tighter, more prosperous year than fiscal '73 in the sense of being closer to full employment. And we would

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hope the economy would continue, and we could sort of work an orbital path out where we can kind of get to something that's sustainable. So it doesn't make a lot of sense to push spending from '73 to '74, because it's a -- in some ways if you've got to spend it, you're better off to spend it in '73.

MAN: Which leaves how much left to be impounded?

SECRETARY SHULTZ: You mean from fiscal '73 to get to the $250 billion level? Well, it is an imprecise kind of number, because it depends on what you count in your original base. And in some of the figures that have been carried, just to give an example, the full year payments of revenue sharing were counted; and, as you know, our process is that we pay the check for this quarter and by law in the first five days -- within the first five days of the next quarter, so that literally the final revenue-sharing payment for fiscal '73 will take place in the first five days of fiscal '74. Now, that's the way the law is. Now, for some reason or another, that revenue-sharing amount was carried for fiscal '73 in some descriptions of the situation. And it was realized that that was not going to be the way it was, so you save yourself a billion dollars -- in quotation marks "save." And really -- so that's not a part of the base; that -- that didn't require any -- any effort to do that; that just was a -- a recognition of the situation. So I would say that something on the order of seven to eight billion dollars or so had to be found, in one way or another.

MAN: Has yet.

MAN: No, had...

SECRETARY SHULTZ: Well, had to be found in order to make the $250 billion figure.

MAN: But that hasn't yet happened, George -- is that right? I mean, this second half of the year doubles the rates of expenditure, making it 14 or 16 billion dollars a year of annual rates. Is that right?

SECRETARY SHULTZ: No, that's not right. Because of the way the budget process works, the Executive Branch doesn't get the budget for the fiscal -- for a -- a given fiscal year until you're well into that fiscal year. And you tend to move on a continuing resolution for four to six months of the fiscal year. And the continuing resolution, on the whole, is last year's level. So that this process of -- of procrastination or delay or whatever in just -- just the process of getting these appropriations bills out and -- and so on means that on July 1st you don't start in at the level of the new fiscal year;

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you don't have that authority yet. You have to wait. And since we didn't really get the authority to do this spending until the spending ceiling debate was in full swing, we don't have the prospect of having been up and then having to come down; it's a question of how fast you go up. And as you know, the 250 billion is 18 billion above what was spent in fiscal '72. So you're not talking about -- all of our language is the language of cuts, but what we're talking about is an increase of $18 billion. It's only a question of how much of an increase, and whether or not there's going to be any discipline on the amount of the increase that we're talking about.

MAN: Mr. Secretary, in view of the higher than anticipated increases in personal income, corporate profits, etcetera, etcetera, have you got any more recent revisions of receipts for fiscal '73 than the -- the last thing we had, which I think was -- what? May or August?

SECRETARY SHULTZ: We will -- we will have whatever our...

MAN: Then you were talking about 225...

SECRETARY SHULTZ: Whatever our then current estimate of revenues is will be published as part of the budget.

MAN: But as of now have you got any that you can tell us?

SECRETARY SHULTZ: Well, we don't -- we -- we -- we don't sort of...

MAN: I know you don't, but I wondered if you...

SECRETARY SHULTZ: ...give these revisions here, there, and elsewhere. And I...

MAN: Well -- well, Bill's predecessor when he talked before the SIA in Florida, Charlie Walker, he said that the -- the deficit would probably be somewhere in the range of maybe 18 to 20, rather than 25 [words unintelligible], and then later on I made a few inquiries here and I was told that those were Charlie's own estimates. So I wondered if you had some estimates that go along with this.

SECRETARY SHULTZ: No, I never...

MAN: Or in conflict with this.

SECRETARY SHULTZ: I hope I never wander off the reservation that way.

MAN: Can you give us any guidance on the spending picture for next year, Mr. Shultz?

SECRETARY SHULTZ: Fiscal '74?

MAN: Yes.

SECRETARY SHULTZ: It will be within the full employment revenues.

MAN: Do you have some...

SECRETARY SHULTZ: And I think -- I'm -- I don't want to name a number, but you know fairly well what -- what that number is. People all around are estimating it. And that is one of the good things about that concept, that it is something that professionally equipped people can come within a -- a half of one percent of each other on without much difficulty.

MAN: Do you -- do you...

MAN: If fiscal '74 is going to be such a good year, shouldn't you be aiming for a deficit full employment -- a full employment deficit?

SECRETARY SHULTZ: The -- no. We'd have to...

[Confusion of voices]

SECRETARY SHULTZ: You mean a full employment surplus.

MAN: Surplus, yes. Surplus, I'm sorry. Yes, right. I'm sorry.

SECRETARY SHULTZ: No, I don't know that we -- we are -- we think the battle for expansion is that completely over. We want -- in other words, we want the expansion to continue. Obviously, it is going to have to taper if it's going to be sustainable, because it is going up at a terrific clip now, at a level two thirds above or in some quarters twice what the natural rate of growth of the economy is. So as you get up closer to a full use of resources, you have to -- you have to taper that growth rate down, so that is more or less in line with the natural growth rate of the economy. Otherwise you go right up through and you don't -- you don't have a sustainable orbit; you're going to fall back down again. That was what happened to us before. Now -- so we want to keep sustaining this expansion; we want to be withdrawing the amount of government stimulus as private stimulus accelerates and as you get closer and closer to full employment. And as you -- if you get into a -- a full employment orbit, so to speak, that is sustainable, then you probably -- there may very well be years in which you'd want a full employment surplus, depending upon what's happening

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with -- in state and local government, what's happening to savings and things of that kind.

MAN: Can you give us some mileposts to look forward to between now and then on full employment itself? How...

SECRETARY SHULTZ: When would we...

MAN: ...close to...

SECRETARY SHULTZ: ...we might get there?

MAN: Well, how far -- how are we going to get along the way. Obviously, one month from the next you're not going to go from five to no -- to full employment. When are you going to start seeing some progress on this?

SECRETARY SHULTZ: Well, we've seen quite a lot of progress in the last year and a half or so. The -- the only indicator that has lagged at all has been the gross unemployment rate. But many other indicators of labor market conditions have shown increasing tightness. The layoff rate in manufacturing, for example, is -- I'm sorry -- and the accession rate are both more or less at the levels they were around 1968. Hours of work in manufacturing are very high. Employment has been expanding at an extraordinary pace. And unemployment has come down. Unemployment among married men is down to 2.4 percent. And so on. So I think that a lot of these indicators in the employment market...

MAN: Is the gross rate there useless for all intents and purposes? What's -- what's your -- what importance does the gross rate have any more?

SECRETARY SHULTZ: The growth rate?

MAN: The gross rate of unemployment, the overall unemployment rate.

SECRETARY SHULTZ: Well, it's the sort of...

MAN: Everyone seems to ignore it.

SECRETARY SHULTZ: If you have a number, one, it's probably the best number you can get. On the other hand, looking at the problem less as an economist and more sort of as a -- as a -- a policy problem that you want to do something about, then what you have to ask yourself is: here is this person -- it's a very personal and human thing -- why is that person unemployed, and what can be done about it? And I think it's pretty obvious that in many cases the answer is not pump up

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the economy, because, if you remember, all through the late 1960s, when we had an extraordinary labor market the unemployment rate among ghetto youth, for example, was up around 25 percent; so that was not the answer to that problem. There have to be some other answers, and apparently we don't know all those answers. But anyway that -- it seems to me you have to work at the problem that way. But that's a different issue than the issue of what your sort of proxy number for full employment is.

MAN: Well, Mr. Shultz...

SECRETARY SHULTZ: As an economic proposition and as a guide to fiscal and monetary stimulus.

MAN: Even so, is full employment still officially defined as four percent unemployment?

SECRETARY SHULTZ: That's the -- that's the definition we're using in instructing the...

MAN: Mr. Shultz, is there any hope of reaching that within...

SECRETARY SHULTZ: Fiscal '74?

MAN: ...the lifetime of the people here?

SECRETARY SHULTZ: It has seldom -- it has seldom been achieved in peacetime. And I -- I -- it was really last done by in the middle of the Eisenhower administration. I think that the path we were on in the early...

MAN: [Words unintelligible] office...

SECRETARY SHULTZ: ...early 1960s was getting there when the combination of big domestic spending and war spending blew the -- the best opportunity we've had for a long time in getting there. And we now are approaching another opportunity.

Well, I'm sorry. You...

MAN: I -- I'm sorry, I -- well, maybe I'm wrong, but I thought that the unemployment rate was 3.9 percent in early '69.

SECRETARY SHULTZ: Oh, it was lower than that. It was about 3.4 percent. But there was a war on, remember?

MAN: Mr. Shultz...

SECRETARY SHULTZ: Don't you remember the war?

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MAN: Mr. Shultz, you -- you [words unintelligible]...

SECRETARY SHULTZ: May I have that cream, please?

MAN: Before [words unintelligible] domestic economic policies of the President, Kenneth Downs works -- or will be ultimately working in the White House for you on that. Could you address yourself to his capacity for this and what he will be doing?

SECRETARY SHULTZ: Well, first of all, he is an extraordinarily able person. He was first in his class in law school. He's a Supreme Court clerk-type guy, so you know that -- that he has the mental agility. He is experienced in that both having worked in private practice and in the academic community with great success he knows a great deal about international economic matters. And some of his writings on the gap and so forth is -- is leading work in the field, just as a matter of scholarship. I might say he's fluent in German and French as well as English. He is one of those lawyers at the University of Chicago, where there is a tradition of thinking of yourself not as being at the law school or at the medical school or at the business school or whatever but as being at the university, there is an -- a real effort there to have a university community -- and within that framework, he's one of those lawyers that spent a great deal of time with the economists; and in that process he has acquired a -- a very good knowledge of economics and holds him -- hold his own very well in that field. Now, beyond that he spent a year and a half as the person in the Office of Management and Budget worrying about, on the one hand, the national security area, on the other the area of international affairs and international economics; so he has seen those areas and has become knowledgeable about how government works and how to get something accomplished and -- and so on. So I felt that he was extraordinarily well qualified.

MAN: How will he function? Is there anything you can say about that specifically at this stage?

SECRETARY SHULTZ: Well, he'll function as my deputy over there in the -- in the White House. And...

MAN: Will he concentrate primarily on...

SECRETARY SHULTZ: ...he'll do all the things that I'm not good enough to do but he is. And he -- he's terrific. Have you ever met him?

MAN: Not yet.

SECRETARY SHULTZ: You ought to talk to him. He's a sensational guy. We're lucky to have him in the government.

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MAN: Secretary Shultz, I wonder if you'd answer just three questions on [words unintelligible]. One, do you think the economy would have reached this point now without controls?

SECRETARY SHULTZ: You mean in the expansion?

MAN: In terms of the expansion, the fight against inflation, level of unemployment [words unintelligible]?

SECRETARY SHULTZ: Well, that is a -- I'm tempted to bite on that question, Reuben, but I think I will refrain. The -- we have worked along at this problem, and, in one way or another, we have got to where we are. And...

[Laughter]

...now the question is, where do we go from here? Now, I think it is important to try to learn from your experience. And goodness knows I've tried to do that. I mean, I don't have the same ideas I did four years ago. But if -- if the question comes down to the fact do I think that the economic system responds basically to the fundamentals, then I think the answer is yes.

MAN: Rather than to controls?

SECRETARY SHULTZ: Well, I -- I don't want to say "rather than" because I think that we have gotten some mileage out of the controls. We have also gotten some mileage out of the tax changes that were made in '71, and we've gotten some mileage out of the changed international economic arrangements. So -- and I think that fortuitously to some extent if we were going to impose controls our timing could not have been better.

MAN: My second question you alluded to a bit by speaking of foreign trade matters. It seems that the dollar devaluation really hasn't had the impact on our foreign trade balance that had been hoped for. Do you foresee additional measures to bring that around? Or do you share the premise?

SECRETARY SHULTZ: I was never as -- you -- you will find no statements on the record from me predicting a gigantic turnaround from changes in exchange rates, because I think that -- I do think that you get value from changes in exchange rates, don't misunderstand me; but I think that the -- the typical calculations have been made on the basis of -- of elasticity studies that say, "Let's change the price of this product, and then trace through the trade effect of that, everything else the same." And so you get -- you get those individual type things and then they were aggregated and an overall calculation was made. Well, there is in economics, as you know, a so-called "fallacy of composition" that you can get into by assuming that

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if you add everything up you can literally aggregate individual things without having an impact that results from the -- from the very fact of -- of having aggregated. And what happens when you do that, of course, is that there's -- there's a lot of adjustment within the system and slippage that takes place, so you don't get really the full impact that you -- you might have assumed.

But nevertheless I think we have gotten a significant and definite impact, and it was a very good thing to have done. And I think the impact has been masked by the fact -- by our very success in expansion of the U.S. economy. But we have -- our -- our -- if you start with last -- with two years ago, say, and then state relative changes in rate of growth by countries, there's no question about the fact that our relative increase in growth has been far greater than anybody else's. And that has the well-known impact of drawing in imports, relatively speaking. And -- and if you -- if you plot the trade balance and changes in it according to prosperity and recession in the U.S., you see that it -- if you really want a strong trade balance the way to get it is to have a recession, and then you don't have imports and that looks great. Except that that isn't what we want.

MAN: The growth in the deficit from two billion in '71 to six billion in '72 can't be something that you look at with pleasure, even though it indicates a prosperous U.S. economy which is purchasing a lot of imports.

SECRETARY SHULTZ: I don't look at it with pleasure. I think that there's a big problem, as we have been at unending pains to point out to the rest of the world -- not only our problem, but their problem. And we think that it has to come into equilibrium some how or other, or better than that, and that the adjustments needed to bring that about have -- have not yet been made.

MAN: My next question...

SECRETARY SHULTZ: So there's -- there's, well, lots of work to do in our proposals for monetary reform. The relationship of that to other aspects of international economic policy are part of it; our efforts to get the Japanese to recognize their problem are part of it; and so on. And it's a continuing, very important, difficult battle.

MAN: And this is on quite another subject. Do you see any reason why your present position as Secretary of the Treasury should be subject to confirmation and the -- your former position as Director of the OMB should not? Just take the question

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as really why should...

SECRETARY SHULTZ: Well, I don't think the...

MAN: ...the OMB not be subject to confirmation?

SECRETARY SHULTZ: Are you suggesting that the Secretary of the Treasury should not be subject to confirmation?

MAN: No, I'm positing quite the reverse.

SECRETARY SHULTZ: Well, let's leave the Secretary of the Treasury out of it. That poor fellow has to endure enough misery. On the question of the budget and whether there should be confirmation there, I notice that -- one of the things you notice -- and I puzzled about this myself when I was there, because I -- I had been unhatched as Secretary of Labor and was observing what politics was like and finding it interesting and then all of a sudden I became Director of OMB and since you're not on the White House payroll and you aren't confirmed by the Senate you're hatched, and that was nice in some ways and not so good in others, and so I speculated about -- but I have noticed every time a new President comes in, what's the first story? well, it usually is he appointed so-and-so Budget Director and that gentleman has gone to work immediately in the executive office of the President; he's there and he's working on the budget forthwith. And it is the President's budget with the aid of this person who organizes the work for him. It is bound to involve him in a gigantic amount of interaction with the President on all manner of things across the board, and with a lot of the work having to be done before January 20th; so that you get a running start. And so when the new Cabinet comes in, I remember one of the first things that happened to me was Bob Mayo, who had been appointed Director of the Budget, asked me to come over to the EOB and he had his budget bureau people there and they told me all about the Department of Labor and how to change it all around and so on. And each cycle the budget bureau takes a crack at every agency all over again; that's the tradition. And I think that that process is probably helped by the fact that the Budget Director has a little different spot. On the other hand, the Budget Director by tradition always testifies before the Congress. And I spent a great deal of time testifying as Budget Director, and others have too; so that to the extent that anybody wants to question him, they have ample opportunity to do so.

MAN: Mr. Secretary, this is a -- I assure you, a play on words, but right now you're something of a bastard in this sense: you have...

SECRETARY SHULTZ: I'm not the Budget Director anymore.

G-f...

[Laughter]

I used to be a bastard. But I'm not anymore.

MAN:: No, you...

SECRETARY SHULTZ: And what them guys did I would never've done.

MAN: You have a portfo -- you have your portfolio as Secretary of the Treasury, but also you have another job now as Special Counselor to the President. In your contemplative process, do you foresee any difficulty dealing with this new Congress? At what point do you take off your hat as Secretary of the Treasury and stretch the umbrella of executive privilege to your other hat?

SECRETARY SHULTZ: I -- I think the executive privilege issue is a phony issue. It is -- it is not a -- or, don't write that down, because I don't want to sound inflamatory. I have been testifying for four years in the context of subjects about which I have had many close conversations with the President. I've never had a problem with the executive privilege issue at all. Twice I have been asked by somebody in Congress, "When you met with the President on that subject, what did you recommend? And what were the other alternatives he considered? And what arguments weighed with him on this or that?" -- I was asked a question like that a couple of times, and I just said, "Well, I think that's a matter between the President and I," and -- and they backed right off; there was no problem. And I don't think anybody expects that you should answer a question of that kind.

MAN: But this...

SECRETARY SHULTZ: So I don't see that there's an issue.

MAN: It's a little different now, isn't it? I mean, you -- you weren't an assistant to the President then; you were a Cabinet officer who normally testifies, were you not?

SECRETARY SHULTZ: Well, I was a -- I was Director of OMB. I was in that Cabinet on that place, but, as you pointed out, I was not -- did not stand for confirmation in that job. But I testified a lot.

MAN: I appreciate that. But you were still not an, you know, assistant to the President in -- in a job other men have the title and they do -- they do not testify. But you

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don't see that day coming?

SECRETARY SHULTZ: No.

MAN: Why? Because of the nature of the -- of your fields?

SECRETARY SHULTZ: No, I -- I think that what is happening is that -- that one can see -- you know, when you are kind of subject to testimony you -- you have to be careful that you find time to do your job and -- because you can spend so much time, literally, physically, giving testimony and preparing for it and so on that you just can't do anything else. Now, the President has to have -- and -- and this I will have to work at -- but the President has to have some people who are there and when he has something come up that he knows they're there, they are under his control and he can tell them, "Do this, do that. I don't care if you have to testify tomorrow. I want you to work on this. And my word is the word that's going to prevail." He has to have some people around who are in that posture.

Now, with respect to Henry, where this has all come up so much, a great effort is being made to accommodate the problem by providing settings in which he talks with members of the Congress and they ask him questions and so forth. And I -- I don't -- I think that probably that kind of a compromise can work out.

MAN: Mr. Secretary, is it true that Chairman Mills has suggested he would be willing to take up trade legislation before any tax reform proposals? And if it is true [words unintelligible]?

SECRETARY SHULTZ: I -- I don't know whether -- whether he has said that or not. He hasn't said that to me. But he may have...

MAN: I thought he had said the opposite.

SECRETARY SHULTZ: He may have...

MAN: He said the opposite.

MAN: He said the opposite.

SECRETARY SHULTZ: My impression is sort of the opposite. But I don't -- I don't -- I'm not necessarily abreast of every utterance.

MAN: Apart from the question of what Wilbur Mills

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is up to, is there going to be a trade bill that the administration's going to prepare and submit?

SECRETARY SHULTZ: Well, we're working on that subject, and when we get through, the President will decide; and then we'll know.

MAN: Have you definitely decided to put in a bill to restructure financial institutions?

SECRETARY SHULTZ: You mean following the Hunt Commission?

MAN: Yes.

SECRETARY SHULTZ: Well, we have the Hunt Commission. We've recently gotten a Consumer Finance Commission report -- last week, as a matter of fact -- which is a different subject in some ways, but aligned in others. And we have had a strong task group working on the Hunt Commission recommendations, and we hope to bring that to a conclusion some time this spring and come forward with recommendations from the administration.

MAN: There's no decision yet, then, on this?

SECRETARY SHULTZ: Well, there won't be a -- there won't be a decision until the group that's working on it has figured out what they think and we take it to the President and we talk about it and finally determine what he thinks, and then we'll have a decision.

MAN: But there seems to be a...

SECRETARY SHULTZ: That's one -- one of the problems here, and I recognize that you would like to get an answer on things; one of the problems is there aren't intermediate points that we're able to report to you that there are five people who think this and ten people who think that and so on. It's sort of you work at it until the President decides and then we've got a decision worth reporting.

MAN: In speaking of unemployment a few minutes ago, you said that so far as ghetto people, for example, were concerned stimulation of the economy is not an answer. But I -- the Manpower programs, as I understand them, are...

SECRETARY SHULTZ: It may be -- it -- it falls in the category, probably, of a necessary but not sufficient condition.

MAN: Right. But adding to that, then, come the Manpower programs which are designed specifically to help disadvantaged people. Is it true that there is going to be a cutback in the Manpower funding?

SECRETARY SHULTZ: The -- I think one would have to say that leaving aside the straight income-maintenance aspects of Manpower programs, while -- while I believe some have been quite successful, others have not. They're like most of the programs: they have varying degrees of success. And it isn't necessarily so that because something was designed to achieve an objective that its existence therefore achieves the objective. And I think what we see is a problem that has been persistent over a long period of time with varying efforts. And I think we need to keep at it.

MAN: How -- how 'bout...

SECRETARY SHULTZ: Manpower programs, with all of their faults, are one of the leading candidates. We think that...

MAN: Candidates for what?

SECRETARY SHULTZ: For doing something for a way to work at the problem. There are other aspects of the problem. There is, for example, the problem of the youth minimum that we talked about a lot...

MAN: Uh-huh.

SECRETARY SHULTZ: ...last year. And -- and other things that are related to that area of policy on this.

MAN: In that same area: what about the area of racial discrimination? You were yourself involved...

SECRETARY SHULTZ: That's another -- that's another area...

MAN: ...in the Philadelphia Plan and all that. Does the administration intend to push in the area of racial discrimination, and in the construction area?

SECRETARY SHULTZ: I don't see any change in attitude there. The...

MAN: Knowing your views, is that good news or bad news?

SECRETARY SHULTZ: Well, I think that the Philadelphia Plan has been -- I would describe the Philadelphia Plan as an effort to say to a group of people, "Here is a problem. You

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should work on the solution of it. And in order to work on the solution of that problem, namely, lack of equal opportunity, you should do what -- what The New York Times does when it tries to get out its daily newspaper or -- or whatever: have a plan, have a program, where you -- where you say, 'If I'm going to get from A to B, it's not going to happen if I just do what I've been doing; I've got to do some different things. What are they? And if I do one, two, and three, maybe I can get there'" and to have -- to have that kind of a -- a thing. Well, now, that is not a quota system. That is an effort to set reasonable objectives. And we always said in the Labor Department -- I always said -- that the test was -- was a good-faith effort to solve the problem. That's not a quota system.

Now, that is what -- that is where the ball is. That is what is required. I think that good-faith efforts are being made very widely. I think we've made a lot of headway on that.

Now, as far as straight quota systems are concerned, we were never for them. But I think the -- the effort to set goals has probably been set back somewhat, largely because of the Democratic convention, which made a mockery of this kind of goal-setting process and just turned people off. That combined with the Hy Bookbinder [?] letter and so forth has -- has made an impact in this whole area. But as far as the administration is concerned, we think that it's important to have equal opportunity and it's important to have programs that are affirmative to get there.

MAN: Could I ask you about Governor Brimmer's latest state report on multinational corporations and whether or not you feel the multinational -- American multinational corporations are increasingly thwarting government economic policies? How do you view the "multinational threat," in quotation marks?

SECRETARY SHULTZ: Oh, it's sort of too big a topic for an offhand comment. I think the...

MAN: Big enough for legislation this year?

SECRETARY SHULTZ: There -- there are -- I mean, it's a big topic to understand properly and -- and, depending on what your analysis of it is, to figure out precisely what to do. I've been -- it's been an education for me to work on this tax problem. It is the most complicated thing I've ever worked on, and I've not previously worked on it very much. But you -- you'd better have a rule that when you have -- you -- you think you've got your mind all made up, sleep on it; and the next morning somebody will think of ten other things you haven't thought of that you better think of. And...

MAN: You mean the multinational tax...

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SECRETARY SHULTZ: The multinational foreign tax problem...

MAN: Yes, that is complicated.

SECRETARY SHULTZ: ...is usually put forward as problem of rescuing for America jobs that are abroad, on the one hand, and, on the other hand, as sort of a punitive instinct that -- that somehow or other there's something here that is allowing people to escape taxes.

MAN: Did you find that...

SECRETARY SHULTZ: And I'm convinced that that -- that whatever there may be to those two problems, those -- those aren't the main problems as we address this issue. But I don't claim to have a clear conception in my mind now just exactly how to formulate that issue. I think it is very complicated indeed.

MAN: Well, I mean you -- you -- Governor Brimmer's remarks were directed specifically at the banks and their fording of credit restrictions. Is there any...

SECRETARY SHULTZ: I never -- I never comment on the Federal Reserve...

MAN: Well, is there any movement within the administration to address itself to the role of the multinational corporation or bank in its dealings in the upcoming foreign trade talks or...

SECRETARY SHULTZ: I didn't say we have -- I don't say we have to think about that subject...

MAN: Is there a problem there?

SECRETARY SHULTZ: [Words unintelligible] to sort of think about it.

MAN: Formally? Is there a formal mechanism?

SECRETARY SHULTZ: You mean do we have a committee...

MAN: Yes.

SECRETARY SHULTZ: ...that is set up to look at it?

MAN: Uh-huh.

SECRETARY SHULTZ: We have people who are working

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on the subject. I don't know whether -- I suppose we could say they're a committee, but they work on other things too.

MAN: On the international monetary side, you made you -- made your proposals or suggestions at the IMF meetings last year, and you're heading toward Nairobi. What is your sense of events? And do you think that motion toward a major international monetary reform and the trade stuff that you've always related to it, or Secretary Connally did, has been set back by European and other foreign reaction to the change in the war?

SECRETARY SHULTZ: Oh, I would say that as far as monetary reform is concerned -- and you keep wanting me to talk about the war, and I'm not going to, unless it's...

MAN: All right.

SECRETARY SHULTZ: We -- we'll be clear about that.

MAN: Okay.

SECRETARY SHULTZ: The -- as far as monetary reform is concerned, I think we would say so far so good.

MAN: Uh-huh.

SECRETARY SHULTZ: We have constructed a committee of 20 -- or, there has been one constructed, we haven't constructed it -- and the deputies have met in a -- and they had a pro forma meeting, so to speak, here. But then they had a substantive meeting; it seemed to go along quite well. It's well organized. We think Mr. Morse [?] has gotten it off to a good -- very good start. The nature of the discussion is professional and substantive. And we are, as a group of countries, trying to -- struggling to set a mutually agreeable date; that's always difficult for a meeting of the committee, but we'll have one sometime this spring, I'm sure. So I think from that standpoint things are -- are moving along. And -- and what will be done by the time of the next annual meeting obviously remains to be seen, but I continue to think it is useful, just as we were talking about the Philadelphia Plan, in this effort, too, to have an objective and have it -- a point in time and say, "By that time, we should -- we should try to have some general principles laid out which -- which are generally accepted."

MAN: Would the administration...

SECRETARY SHULTZ: And I -- I hope that we will. And we're certainly working very hard from the U.S. standpoint to further that end.

MAN: Would the administration still like to see Mr. Schweitzer replaced?

SECRETARY SHULTZ: Well, we -- we have never had anything against Mr. Schweitzer as a person. He's a very nice and able person. We continue to feel that the next Director of the IMF should be a person whose -- whose potential time in the job is long enough so that he can in a sense move into a situation that we think will be -- will -- will be different from the present one, institutionally different as well as -- as conceptually different, and administer it with the -- the notion that he's going to be around for a while to reap the benefits or the consequences of how good a job he does.

MAN: Thank you, sir.

SECRETARY SHULTZ: So...

MAN: We have...

MAN: Will we get a four percent unemployment rate in fiscal '74? One last specific question.

[Laughter]

SECRETARY SHULTZ: Well, it's very factual and calls for a...

MAN: Yes or no answer.

SECRETARY SHULTZ: ...quality of crystal ball that I have to say I don't possess. But we're -- we're moving in that direction. And I have...

MAN: Is there still such a thing as a yes or no answer?

[Laughter]

SECRETARY SHULTZ: Well, what would you write down if I said yes.

MAN: I'd write down "yes."

SECRETARY SHULTZ: And "somebody does -- somebody is trying to kid me: he doesn't know."

[Confusion of voices as the lunch breaks up, then the recording ends.]

Department of the TREASURY NEWS
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FOR IMMEDIATE RELEASE January 15, 1973

WITHHOLDING OF APPRAISEMENT OF
HIGH-SPEED TOOL STEEL FROM SWEDEN

The Treasury Department announced today the withholding of appraisement of high-speed tool steel from Sweden pending a determination as to whether it is being sold at less than fair value within the meaning of the Antidumping Act, 1921, as amended.

The decision will appear in the Federal Register of January 16, 1973.

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. High-speed tool steel produced by Stora Kopparberg of Falun, Sweden, is excluded from this action since 100 percent of Swedish export sales during the period under consideration were examined and no sales by Stora Kopparberg were found to be at less than fair value, nor is there any likelihood they will be at less than fair value.

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

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

During the period of January 1971 through August 1972, imports of high-speed tool steel from Sweden were valued at approximately $3.7 million.

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

ATTENTION: FINANCIAL EDITOR

FOR RELEASE 6:30 P.M., January 15, 1973

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 19, 1972 , and the other series to be dated January 18, 1973 , which were invited on January 9, 1973, were opened at the Federal Reserve Banks today. Tenders were invited for $2,400,000,000, or thereabouts, of 91-day bills and for $1,900,000,000, 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 19, 1973		:	182-day Treasury bills maturing July 19, 1973	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	98.678	5.230%	:	97.206	5.527%
Low	98.655	5.321%	:	97.182	5.574%
Average	98.666	5.277% 1/	:	97.199	5.540% 1/

24% of the amount of 91-day bills bid for at the low price was accepted
65% 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	$ 45,660,000	$ 43,660,000	:	$ 46,845,000	$ 3,845,000
New York	2,902,165,000	1,929,965,000	:	2,890,780,000	1,624,930,000
Philadelphia	12,745,000	12,745,000	:	68,150,000	32,600,000
Cleveland	22,620,000	22,620,000	:	37,105,000	10,910,000
Richmond	17,625,000	15,625,000	:	14,725,000	6,725,000
Atlanta	17,220,000	17,145,000	:	15,020,000	13,020,000
Chicago	234,650,000	162,650,000	:	344,350,000	90,375,000
St. Louis	56,615,000	51,755,000	:	35,505,000	16,305,000
Minneapolis	31,975,000	31,975,000	:	20,970,000	8,970,000
Kansas City	35,270,000	27,510,000	:	25,010,000	18,760,000
Dallas	38,060,000	22,540,000	:	33,475,000	7,475,000
San Francisco	97,065,000	62,305,000	:	140,950,000	66,250,000
TOTALS	$3,511,670,000	$2,400,495,000 a/		$3,672,885,000	$1,900,165,000 b/

a/ Includes $191,315,000 noncompetitive tenders accepted at the average price of 98.666
b/ Includes $104,465,000 noncompetitive tenders accepted at the average price of 97.199
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 5.42% for the 91-day bills, and 5.78% for the 182-day bills.

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FOR RELEASE P.M. NEWSPAPERS
TUESDAY, JANUARY 16, 1973

GRAHAM W. WATT SELECTED AS DIRECTOR OF REVENUE SHARING

Graham W. Watt, Deputy Mayor of the City of Washington, D.C., has been selected as Director of Treasury's Office of Revenue Sharing, Treasury Secretary George P. Shultz announced today.

The 46 year-old native of Elizabeth, New Jersey, has been Deputy Mayor since 1970. He will direct the program of Federal revenue sharing which will disburse more than $30 billion to state and local governments in a little more than five years.

Mr. Watt expects to assume his new responsibilities on February 1. He replaces Acting Director Edward A. Fox who has been on loan to the Treasury from the Federal Home Loan Bank Board.

Secretary Shultz said he regarded the new Director as "ideally suited for the job."

"He has a background as a public administrator, having been city manager of three cities before moving to Washington. He has been active in national professional associations and is well known by state and local officials throughout the nation and by their Washington associates. He will bring great strength to this new program."

Mr. Watt received an A.B. degree from Washington College, Chestertown, Maryland, and a Master's degree from the University of Pennsylvania. He was named "Man of the Year" by the Wharton Graduate Business School Club of Washington in 1971. He has been city manager of Dayton, Ohio; Portland, Maine; and Alton, Illinois.

Mr. Watt and his wife, Mary, live at 3001 Veazey Terrace, N.W., in Washington. They have two children, Terrance G., age 16, and Laurie F., age 14.

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Attachment: Statement by Graham W. Watt on Revenue Sharing

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Statement of

Graham W. Watt

upon his selection as

Director, Office of Revenue Sharing
Department of the Treasury

* * * * * * * * * *

From the beginning, revenue sharing has been planned and presented as an exciting breakthrough in federal-state-local relations. President Nixon made it the cornerstone for building his new federalism.

Revenue sharing, which relies upon the revenue-producing capacity of the federal tax system and the decision-making capacity of state, county and city governments, is a major step in governmental decentralization. It puts the money where the problems are.

Revenue sharing is in being. Since President Nixon signed the State and Local Financial Assistance Act of 1972 last October 20 at Independence Hall in Philadelphia, the Office of Revenue Sharing has made two distributions totaling about $5.2 billion to nearly 39,000 states, counties and local governments. These monies are already working to relieve the fiscal crises which have become endemic in state and local budget-making. Responsible local and state officials all across the Nation are considering their alternative needs and planning the most effective use of these funds as they see their priorities.

(OVER)

Revenue sharing must not become "another federal grant-in-aid program" with restricting and often unrealistic guidelines, regulations, and criteria. The essence of the revenue sharing approach is "no strings" and "keep it simple." The Office of Revenue Sharing is committed to that concept. I join enthusiastically in that commitment. The Office of Revenue Sharing must not become another pocket of federal bureaucracy. We shall work to keep the staff lean and highly effective.

When we return to the Congress to report our progress in administering the program which it has enacted, I expect to join with governors, mayors, and county officials in reporting full success in implementing both the letter and the spirit of Revenue Sharing.

January 16, 1973

Department of the TREASURY NEWS
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FOR IMMEDIATE RELEASE January 16, 1973

STATEMENT BY SECRETARY SHULTZ ON RESIGNATION OF UNDER SECRETARY OF THE TREASURY EDWIN S. COHEN

The resignation of Under Secretary of the Treasury Edwin S. Cohen was announced today by the President. I had urged Mr. Cohen to stay on at the Treasury, and although I understand his desire to return to private life, we shall certainly miss him here at Treasury.

The President, two former Secretaries of the Treasury, and I have been most grateful for the tremendous contribution Ed Cohen has made to this Administration and to the nation. In the face of extraordinary demands on his time and energy, Ed Cohen has shown complete dedication to his country and has always performed his duties with the highest degree of excellence. His keen intellect and fine wit are admired by all of us who have worked with him.

We at Treasury shall call upon him often for his wisdom and guidance.

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Department of the TREASURY NEWS
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FOR IMMEDIATE RELEASE January 16, 1973

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 $4,300,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing January 25, 1973, in the amount of $4,101,200,000, as follows:

91-day bills (to maturity date) to be issued January 25, 1973, in the amount of $2,400,000,000, or thereabouts, representing an additional amount of bills dated October 26, 1972, and to mature April 26, 1973 (CUSIP No. 912793 QR0) originally issued in the amount of $1,800,705,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,900,000,000, or thereabouts, to be dated January 25, 1973, and to mature July 26, 1973 (CUSIP No. 912793 RM0).

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, January 22, 1973. 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

(OVER)

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 25, 1973, in cash or other immediately available funds or in a like face amount of Treasury bills maturing January 25, 1973. 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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FOR IMMEDIATE RELEASE January 17, 1973

TREASURY ANNOUNCES THREE ACTIONS
UNDER THE ANTIDUMPING ACT

The Treasury Department announced today three actions taken under the Antidumping Act of 1921, as amended.

In the first two cases there is a withholding of appraisement pending completion of the antidumping investigations, and in the third case there is a final determination of sales at not less than fair value. These decisions will appear in the Federal Register of January 18, 1973.

In the first two cases the Treasury announced that it is withholding appraisement on printed vinyl film from Argentina and Brazil. Printed vinyl film is produced in a variety of colors and pattern designs and is used for shower curtains, draperies, and many other purposes. 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. If a determination of sales at less than fair value were made in this investigation, the case would be referred to the Tariff Commission, which would consider whether an American industry was being injured. If both sales at less than fair value and injury were shown, dumping duties would be assessed as of the date of witholding of appraisement. During the period of January 1971 through June 1972, imports of printed vinyl film from Argentina totaled approximately $225,000. During the same period, imports of printed vinyl film from Brazil were valued at approximately $58,000.

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In the third case the Department announced that a final determination has been made that card clothing from the United Kingdom is not being, nor likely to be, sold at less than fair value. Card clothing is an item used to comb cotton, wool and other fibers to prepare them for spinning purposes. A tentative negative determination was published in the Federal Register on November 2, 1972. This notice invited interested parties to submit written views or arguments, or requests for an opportunity to present their views orally. No submissions or requests were received. During the period of January through September 1972, imports of card clothing from the United Kingodm were valued at approximately $140,000.

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FOR IMMEDIATE RELEASE January 17, 1973

Treasury Amends Public Law 91-508

The Treasury Department announced today adoption of amendments to the regulations implementing Public Law 91-508, the Financial Recordkeeping and Reporting Act of 1970, proposed on October 25th, 1972 with minor changes which are detailed in the attached introduction to the regulations.

The regulations, which will be published in the Federal Register, become effective today.

A copy of the regulations is also attached.

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TITLE 31 - MONEY AND FINANCE: TREASURY

CHAPTER I - MONETARY OFFICES, DEPARTMENT OF THE TREASURY

PART 103 - FINANCIAL RECORDKEEPING AND REPORTING OF CURRENCY AND FOREIGN TRANSACTIONS

On October 28, 1972, a notice of proposed rule making containing proposed amendments to various provisions of this Part was published in the Federal Register (37 F.R. 23114 (1972)). In accordance with the notice, interested persons were afforded an opportunity to submit written comments. After consideration of all such relevant matters as were presented by interested parties regarding the rules proposed, the following amendments are hereby adopted effective January 17, 1973.

Samuel R Pierce Jr

Samuel R. Pierce, Jr.
General Counsel

Eugene Rossides

Eugene T. Rossides
Assistant Secretary

PREAMBLE

The key provisions of the proposal were essentially as follows:

1. Eliminate the requirement that banks keep microfilm copies of checks drawn for $100 or less.

2. Require that information made available to other departments or agencies under this part shall be received in confidence and not disclosed except for official purposes.

3. State specifically that these regulations do not authorize the Secretary or any other person to inspect or review financial records maintained under this part.

4. Eliminate operators of credit card systems from the definition of a financial institution subject to this part.

5. Delete a phrase which allows the Secretary by written order or authorization to impose additional record-keeping or reporting requirements.

After careful consideration of the comments received, it has been decided to exempt checks of $100 or less from the copying requirement.

With regard to disclosure of information, the proposed change is intended to ensure that information resulting from the recordkeeping and reporting requirements will be made available to other departments or agencies of the United States solely for the purposes intended. Various comments suggested that the proposed language did not go far enough, and that the change should forbid disclosure to any other department or agency. Such a restriction would mean that cases involving information obtained from this Department could not be referred to the Department of Justice for prosecution until the Secretary gave his approval. This would simply cause further delay without serving any worthwhile purpose. Every federal department or agency has sanctions against the unauthorized disclosure of official information, and those sanctions have proved effective. Accordingly, the proposed language has been adopted unchanged.

Certain of the comments on the proposed regulation dealing with access to records maintained under this part suggested that the proposal is inadequate to protect the rights of bank customers; however, the proposal is intended merely to point out that these regulations do not authorize access to customer records, but that access to such records is governed by other applicable law. The supervisory agencies which have been given responsibility for assuring compliance with the regulations may, of course, have access to these records as necessary to assure that they are being kept as required.

The proposal to eliminate operators of credit card systems from the definition of a financial institution for purposes of this part met with general approval, except that some doubt arose as to its effect upon the operation of bank credit card systems. Since it was agreed that all credit card operators, including banks, should be removed from the scope of the regulations, the definition of a financial institution has been amended to exclude bank credit card systems, as well as operators of credit card systems, from the definition.

Comments on the proposed deletion of the phrase which allows the Secretary by written order or authorization to impose additional recordkeeping or reporting requirements were favorable to the proposal; however, one comment suggested that the phrase "or otherwise modify" the requirements of this part also should be deleted. This suggestion is consistent with the intent of the proposed amendment, and it has been adopted.

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Part 103 of Title 31 of the Code of Federal Regulations is amended as follows:

Subpart A is amended by deleting from §103.11 subparagraph (5) of the definition of a financial institution, renumbering the following subparagraphs so that the definition of financial institutions will read as follows:

"Financial institution. Each agency, branch or office within the United States of any person doing business in one or more of the capacities listed below:

(1) A bank (except bank credit card systems);

(2) A broker or dealer in securities;

(3) A person who engages as a business in dealing in or exchanging currency as, for example, a dealer in foreign exchange or a person engaged primarily in the cashing of checks;

(4) A person who engages as a business in the issuing, selling or redeeming of travelers' checks, money orders, or similar instruments, except one who does so as a selling agent exclusively or as an incidental part of another business;

(5) A licensed transmitter of funds, or other person engaged in the business of transmitting funds abroad for others."

Subpart C is amended by amending §103.34 to read as follows:

"§ 103.34 Additional records to be made and retained by banks.

(a)(1) With respect to each deposit or share account opened with a bank after June 30, 1972, by a person residing or doing business in the United States or by a citizen of the United States, such bank shall, within forty-five days from the date such an account is opened, secure and maintain a record of the taxpayer identification number of the person maintaining the account; or in the case of an account of one or more individuals, such bank shall secure and maintain a record of the social security number of an individual having a financial interest in that account.

In the event that a bank has been unable to secure the identification required herein with respect to an account within the 45-day period specified, it shall nevertheless not be deemed to be in violation of this section if (i) it has made a reasonable effort to secure such identification, and (ii) it maintains a list containing the names, addresses, and account numbers of those persons from whom it has been unable to secure such identification, and makes the names, addresses, and account numbers of those persons available to the Secretary as directed by him.

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(2) The 45-day period provided for in paragraph (1) shall be extended where the person opening the account has applied for a taxpayer identification or social security number on Form SS-4 or SS-5, until such time as the person maintaining the account has had a reasonable opportunity to secure such number and furnish it to the bank.

(3) A taxpayer identification number for a deposit or share account required under subsection (1) need not be secured in the following instances: (i) accounts for public funds opened by agencies and instrumentalities of Federal, State, local or foreign governments, (ii) accounts for aliens who are (a) ambassadors, ministers, career diplomatic or consular officers, or (b) naval, military or other attachés of foreign embassies and legations, and for the members of their immediate families, (iii) accounts for aliens who are accredited representatives to international organizations which are entitled to enjoy privileges, exemptions and immunities as an international organization under the International Organization Immunities Act of December 29, 1945 (22 U.S.C. sec. 288), and for the members of their immediate families, (iv) aliens temporarily residing in the United States for a period not to exceed 180 days, (v) aliens not engaged in a

trade or business in the United States who are attending a recognized college or university or any training program, supervised or conducted by any agency of the Federal Government, (vi) unincorporated subordinate units of a tax exempt central organization which are covered by a group exemption letter, (vii) interest bearing accounts maintained by a person under 18 years of age opened as part of a school thrift savings program, provided the annual interest does not exceed $10, and (viii) Christmas Club, vacation club and similar installment savings programs provided the annual interest does not exceed $10. In instances (vii) and (viii), the bank shall, within fifteen days following the end of any calendar year in which the interest accrued in that year exceeds $10, use its best efforts to secure and maintain the appropriate taxpayer identification number or application form therefor.

(4) The rules and regulations issued by the Internal Revenue Service under Section 6109 of the Internal Revenue Code of 1954 shall determine what constitutes a taxpayer identification number and whose number shall be obtained in the case of an account maintained by one or more persons.

(b) Each bank shall, in addition, retain either the original or a microfilm or other copy or reproduction of each of the following:

(1) Each document granting signature authority over each deposit or share account;

(2) Each statement, ledger card or other record on each deposit or share account, showing each transaction in, or with respect to, that account;

(3) Each check, clean draft, or money order drawn on the bank or issued and payable by it, except those drawn for $100 or less or those drawn on accounts which can be expected to have drawn on them an average of at least 100 checks per month over the calendar year or on each occasion on which such checks are issued, and which are (i) dividend checks, (ii) payroll checks, (iii) employee benefit checks, (iv) insurance claim checks, (v) medical benefit checks, (vi) checks drawn on government agency accounts, (vii) checks drawn by brokers or dealers in securities, (viii) checks drawn on fiduciary accounts, (ix) checks drawn on other financial institutions, or (x) pension or annuity checks;

(4) Each item in excess of $100 (other than bank charges or periodic charges made pursuant to agreement with the customer), comprising a debit to a customer's deposit or share account, not required to be kept, and not specifically exempted, under subparagraph (b)(3) of this section;

(5) Each item, including checks, drafts, or transfers of credit, of more than $10,000 remitted or transferred to a person, account or place outside the United States;

(6) A record of each remittance or transfer of funds, or of currency, other monetary instruments, checks, investment securities, or credit, of more than $10,000 to a person, account or place outside the United States;

(7) Each check or draft in an amount in excess of $10,000 drawn on or issued by a foreign bank, purchased, received for credit or collection, or otherwise acquired by the bank;

(8) Each item, including checks, drafts or transfers of credit, of more than $10,000 received directly and not through a domestic financial institution, by letter, cable or any other means, from a bank, broker or dealer in foreign exchange outside the United States;

(9) A record of each receipt of currency, other monetary instruments, investment securities or checks, and of each transfer of funds or credit, of more than $10,000 received on any one occasion directly and not through a domestic financial institution, from a bank, broker or dealer in foreign exchange outside the United States; and

(10) Records prepared or received by a bank in the ordinary course of business, which would be needed to reconstruct a demand deposit account and to trace a check in excess of $100 deposited

in such account through its domestic processing system or to supply a description of a deposited check in excess of $100. . This subparagraph shall be applicable only with respect to demand deposits."

Subpart C is further amended by amending §103.35 by deleting "paragraph (l)" in subparagraph (a)(2), and substituting therefor the words "subparagraph (a)(l) of this section"; and by deleting "subsection (l)" in subparagraph (a)(3), and substituting therefor the words "subparagraph (a)(l) of this section."

Subpart D is amended by amending §103.43 to read as follows:

"§103.43 Availability of information.

The Secretary may make any information set forth in any report received pursuant to this part available to any other department or agency of the United States upon the request of the head of such department or agency, made in writing and stating the particular information desired, the criminal, tax or regulatory investigation or proceeding in connection with which the information is sought and the official need therefor. Any information made available under this section to other departments or agencies of the United States shall be received by them in confidence, and shall not be disclosed to any person except for official purposes relating to the investigation or proceeding in connection with which the information is sought."

Subpart D is further amended by amending §103.45 to read as follows:

"§103.45 Exceptions, exemptions, and reports.

(a) The Secretary, in his sole discretion, may by written order or authorization make exceptions to or grant exemptions from the requirements of this part. Such exceptions or exemptions may be conditional or unconditional, may apply to particular persons or to classes of persons, and may apply to particular transactions or classes of transactions. They shall, however, be applicable only as expressly stated in the order of authorization, and they shall be revocable in the sole discretion of the Secretary.

(b) The Secretary shall have authority to further define all terms used herein."

Subpart D is further amended by adding a new §103.51 as follows:

"§103.51 Access to records.

Except as provided in 103.34(a)(1) and 103.35(a)(1) of this part, and except for the purpose of assuring compliance with the recordkeeping and reporting requirements of this part, this part does not authorize the Secretary or any other person to inspect or review the records required to be maintained by subpart C hereof. Other inspection, review or access to such records is governed by other applicable law."

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SECRETARY OF THE TREASURY GEORGE SHULTZ

U.S. INDUSTRIAL PAYROLL SAVINGS COMMITTEE MEETING

January 11, 1973

U.S. DEPARTMENT OF THE TREASURY

SECRETARY OF THE TREASURY GEORGE SHULTZ: The program to control inflation, which we made some announcements about this morning, is, I think, intimately related to the program which you people work so hard on, because it has to do with savings and their role in our society. It has to do with rates of return and interest rates, and so forth. So I think it is a good conjunction of events that I'm able to talk with you at the same time that this program is announced. I guess, as a matter of fact, this will be the first group, other than, of course, the press -- which has to come before everything -- the first group to be talked to about this program. And so I'm going to roll up my sleeves and get ready to exhort you and call for your cooperation. So be ready.

But before doing that and very much related to it, as I said, is the savings bond program. And that program works partly because of its content, because of what it does for individuals, and for what it does for the United States and the government. So that the content itself is a good product, but it also is importantly dependent on the effort that people here and your colleagues have made and will make. And I'm impressed with the sense in which there is not only an effort to be made this coming year, which will be important in and of itself, but by -- as I have examined this program, anyway -- the sense in which it is a sort of cumulative effort. What was done ten years ago by Harold Geneen in getting this going is being drawn upon today. And what you do today will be drawn upon in the future by people who follow you in these responsibilities.

So I think that the first thing to do and the place to put primary emphasis in this program is on the people who

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work at it. And we are going to honor three individuals in a very personal way here. But in each case, I think they would be the first to say honoring them stands for honoring other people who work with them as well. And it is a personal honor and also a symbolic honor that goes to many.

Now, first, I would like to have my friend Milt Batten (?) come up here. And he is awarded the Silver Medal of Merit. And I'll read the citation, which I signed. But I didn't sign it the way I would a dollar bill, so it really isn't as much. It's just "George." "Dear Milt, my warm congratulations on the results of the 1972 savings bond campaign. Sales of the small denomination bonds, which reflect payroll savings activity, were four billion one hundred fifty million; one billion five hundred million greater than when the committee began its annual nationwide campaigns in 1963. The enrollment of payroll savers far exceeded the committee's goal of two million three hundred thousand." I think, as a matter of fact, it was about two million six hundred thousand.

"You as the chairman for the retail merchandising industry and your fellow members of the U. S. Industrial Payroll Savings Committee are, in large part, responsible for these outstanding accomplishments which benefit the individual citizen and the nation.

"With great pleasure, I present to you the attached Medal of Merit. Please accept it as a symbol of your government's deep appreciation.

"Sincerely yours..."

MILT BATTEN: Thank you, George.

[Applause.]

SECRETARY SHULTZ: Now I'd like to ask Harold Geneen if he would join me here. And I said earlier that I think what is accomplished this coming year draws on the efforts that have come before. And in honoring Mr. Geneen as the person who picked up this ball ten years ago, I guess, has worked at it since, I would like to not only honor him but all of the past chairmen. And we have here a rather lovely plaque with the junction of the U. S. Seal and the Department of the Treasury Seal. We always identify ourselves with a national governmental interest. And this plaque is for Harold S. Geneen, 1963 chairman, in a notable decade for America, by the U. S. Payroll -- Industrial Payroll Savings Committee. And then I signed the full treatment, just like on a dollar bill, Harold, so you can cash it in.

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Thank you very much.

[Applause.]

And then Don McNaughton, if you'd take the long stroll up here. He is a double winner. There're two different things here. Why don't we start with this one? This is a citation to Donald S. McNaughton, Chairman, U. S. Industrial Payroll Savings Committee, "for exceptional achievement in the 1972 'Take Stock in America' payroll savings campaign.

"Under his leadership and inspired by his example, American industry far exceeded its goal of enrolling two million three hundred thousand savers in 1972 and raised the sale of Series E bonds through the Payroll Savings Plan to the highest dollar total in twenty-seven years. 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 bond program and gives strength and vitality to the American way of life." Given under my hand and seal this eleventh day of January, 1973.

[Applause.]

And this is accompanied by a special medal of merit which we award in the Treasury, awarded to Donald S. McNaughton for distinguished leadership as 1972 chairman, U. S. Industrial Payroll Savings Committee.

The box is almost as nice as the medal.

[Laughter and applause.]

I'm sure I don't have to say anything to emphasize the importance of this program. We see it, I suppose, most closely in the Treasury, because while everybody else in the government spends money, we have to get ahold of it somehow or other through taxes and through borrowing and finance these efforts. We're quite conscious of the fact that there are now fifty-eight billion dollars worth of these securities outstanding. That's about a quarter of our debt, privately held debt. And it makes a tremendous contribution to the overall program of debt management.

So we feel that it's very important to us. And we feel that the only reason why, fundamentally, this volume of securities are held is that it is a good deal. It is something that is worthwhile for the individuals; it is something that encourages thrift. As we look to the year 1973 and some of

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our broad economic problems, the extent to which we can encourage people to save in this manner I think is going to be very helpful.

So this is a very important program for us. And we appreciate your efforts and understand that it is a lot of work; that this is a volunteer organization. And like some, but unlike many volunteer efforts, people here really work at it. And more than that, the work is productive and a result is achieved. And I was saying to Don as we were talking here, one of the unnerving things sometimes about working in a field connected with finance is that most of the time when you undertake something, it's pretty easy to tell whether or not you succeeded. And the record is unambiguous.

Now let me turn to the subject of Phase III. And as I say, I think it is appropriate to talk about that here, because it is related to your efforts. And the extent to which we are successful in Phase III will, in part, determine how good a deal for the individual the savings bond is. So I will presume to just describe the announcements that the President has made and to say where it seems to me business in this country fits into the program, what is expected of you, and what I know will be produced by you.

The President announced today a goal for us all, so far as inflation is concerned, of getting the rate of inflation down to two and a half percent or below. We recognize that as an ambitious target. Most of your economists don't think it'll get that low. So it's ambitious. We feel that it is attainable. It is attainable if, first, the federal government has the capacity to exercise discipline in the conduct of its own affairs. That is the primary and first precondition. The President is laying down a fiscal '73 budget which will come in, in outlays, under two hundred and fifty billion and a fiscal '74 budget that will come in under the revenues that our tax system would produce when we get to full employment.

So he is putting forward a disciplined effort from the executive branch, and we hope, and we expect, and we plan to call to account the Congress to exercise similar discipline in controlling spending, so that we can control inflation and so that we can avoid -- and we have no intention of asking for one -- so we can avoid a tax increase.

So I think that is our first and fundamental plank that we talked about and talked about, and we reiterate. And we understand that is the gut of any effort to deal with the problem of expanding prosperity with reasonably stable prices.

Now, we have been through Phase I. We have been through

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Phase II. And as we have come up to the year 1973, we have tried to learn internally from our own experiences. And we have had wide consultation with people from labor, from business, from agriculture, from consumer groups, members of Congress, economists. I have personally consulted, one way or another, with around two hundred and fifty people. We have received written communications from a wide number of people. Many of you, I know, have been involved in that effort.

Now what have we learned? I would say four things have come home to me from the consultations that we've had. First -- and I regard it as somewhat encouraging to have been lectured so many times by people from a wide array of walks of life on the fundamental point that I first made; namely, we got people together to consult about the wage and price control system, and they shook their fingers at us, and they said, "Look, we want to be responsible. We want this thing to work. But in the end, we can't do anything if you don't do something." And so I think there is a consciousness of the importance of monetary and budgetary discipline as part of this process. And an interesting result of our consultations was to see how deep that now is.

Second, we were told about many problems with the current program -- procedural problems of various kinds involving delays, misunderstandings, difficulties of one sort or another with the red tape and the bureaucracy; I might say, a totally predictable aspect of trying to run controls, impossible not to have it, doing the best you can with good people -- and we feel we have had very good people on the job. But nevertheless, a lot of procedural problems that people have talked about.

And second, and, I suppose, in many respects the more important, substantive problems. And there're a great variety of sorts. The labor people, for example, complained a great deal about what the program was doing to the collective bargaining process, about the problem of the union that comes into its management and makes demands. And the management smiles and says, fine, and then shifts the package down to Washington to be dealt with on a realistic basis. And they regard that as a process which will before long undermine the integrity of the relationship between union and management. And they complain about it.

We have a telephone book full, if you'll pardon the expression, John, of examples of anomalies of one kind or another that seem to be developing with some increasing rapidity. I don't think the problem has been serious, and probably isn't too serious now; but it was on its way to being a very serious problem, in which the structure of the program itself -- and

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various examples we've had -- produces a result that, fundamentally we don't want; basically, a cost increasing result, or a result which winds up reducing the supply available of some commodity of which the demand is rising and the price is rising and the pressures are there, and so on. And these kinds of anomalies, also predictable, also accompanying any program of mandatory controls that goes on for a long time, are almost inevitable. We have many examples of those. So there was that note of the problems with the existing situation that must be dealt with.

Third, however, I would say we found a very general and widespread view that despite the problems, the system of controls, in some manner, must go on. It would be a mistake not to continue and to do our best to complete the job, insofar as controls can contribute to the completion of the job. There were some who advised to just drop the whole thing. But I would guess ninety percent of the people we talked to counseled that that would be a mistake. But, we were told, it's very important what the President has said, that he regards this as temporary. People will do things in a special way for a short period of time which they wouldn't be willing to do if they thought this was a permanent way of life. And so you must keep saying that and mean it, and show that you mean it, so we were advised. And also in this same vein, there was a good deal of sentiment that the program, in its totally mandatory aspect, could be cut down, and we could rely to a greater degree on the voluntarism in the American society to do the job.

Finally, I would say everybody, even the agriculture groups, said that we have a terrific problem in the area of food prices and that we simply must be able to do something about that, or else all the other parts of it that seemed to be going reasonably well will come apart. In other words, on a sort of analytical basis about where do we stand and, thereby, what needs to be done, the examination of the price indices in various sectors of the economy suggests that across a broad range of private, nonfarm activity, the price performance is fairly good. But then the farm activity, the price performance has been so different, and it is of such importance to that housewife who is in there shopping every week or every day or every other day -- it's the most visible aspect of prices -- and that that has been badly out of kilter.

So that is what we have gotten out of these consultations, a sort of an analysis of where we stand, and what is good, bad and indifferent about the combination of Phase I and Phase II.

So on the basis of that advice and our own thinking about the subject, the President, who has thought about this

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program a great deal and this problem a great deal over the years, has now decided on the following kind of program for 1973. And as we see it, there is no right program for all time of this kind. It isn't as though there is a right way to do it if you can only find it, and you keep looking, and then all of a sudden you find it. Rather, it is a process of looking at the tools you've got, examining the problems that you've got, and seeing how, periodically, you can re-arrange your use of the tools to meet the problems as they are emerging. And so we are looking for the most effective way to use these tools in 1973.

Well, first of all, we are going to make a stepped up effort in the food area. Mandatory controls after a product has come out of the raw agricultural state are retained. We are setting into place some procedural changes in the food area. And we have announced today a set of things, which I'll mention in a little while, substantively designed to get at the essence of the problem; namely, supply, and how can you increase supply.

Second, as we have analyzed the problem, there is a lot of work to be done on health costs. I say "costs," because, as in so many areas, it isn't just prices that count; it's prices, but the service rendered for the price. And we have had pretty good success, apparently, in Phase II with health prices, and we've had very little success with health costs, which have continued to rise at a very, very rapid rate. So we will procedurally have a stepped up and mandatory program in the health field.

Both of these fields, I think it is worth noting, are characterized now, on the one hand, by a control mechanism, which we seek to improve; on the other hand, by a great deal of involvement by governmental programs. And we want to work these two things together to get a better result than we're now getting.

We will continue what we regard as successful and worthwhile efforts in the construction industry and with our Committee on Interest and Dividends, which our friend Arthur Burns chairs. Beyond that we are changing the nature of the program. And it's a little hard to know quite how to describe it. It's a question of is it half full or half empty, sort of. You don't know which part of it to describe. But I'll just state that we will take the standards that have been developed by the Price Commission and the Pay Board, modify them somewhat where we think they produce anomalies of one kind or another, and then say to all of you -- "We're all engaged in a process of trying to reach the goal that the President has set out. And we want from you responsible behavior to that end. And

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responsible behavior can be identified by following in a reasonable way these standards. And we expect you to do so on a self-administering basis."

Now we will make it mandatory for large firms to report to us periodically, and medium sized, so-called tier two firms to keep records in specified ways so that we can readily find out what's going on. We will maintain a staff capacity in the Cost of Living Council, and we will maintain a good force in the Internal Revenue Service to help us to stay abreast of what is going on. And we reserve the right in the Cost of Living Council to reassert jurisdiction where we feel unreasonable behavior is taking place and to go through whatever proper procedure is called for, and, if necessary, to impose mandatory price or wage standards in that area. But we don't want to do that. We don't expect to have to do that. We expect people will want to do what is reasonable.

Now insofar as the standards for pay are concerned, we have constructed a Labor-Management Advisory Committee to the Cost of Living Council. And that committee will take the Pay Board's standards, which remain in effect until they are changed, if they are changed, and will review them and will advise us on what is reasonable behavior in the field of wages.

And I might say that, in the spirit of voluntarism and of trying to make this thing go on its own, it was quite interesting to me that on something like this, which is contentious and difficult, that each of the ten people that we asked to serve on that committee agreed to do so. We didn't have to go to the next choice in any case.

I'm sure you'll recognize the names of the people involved. On the management side, Steve Bechtel of the Bechtel Corporation; Ed Carter of Hale (?) Broadway Stor ; Jim Roche from General Motors; Heath Larry (?) from U. S. Steel; and Walt Risten from the First National City Bank. On the labor side, George Meany, head of the AFL-CIO; Paul Hall from the maritime trades; I. W. Abel from the steelworkers union; Frank Fitzsimmons, head of the Teamsters Union; and Leonard Woodcock, head of the automobile workers union. This group will come together and help us in setting the standards. The administration of the standards, however, will be done by the Cost of Living Council. So we will have the case by case, or whatever you want to call it, responsibility. And this advisory group will come together and advise us about what the standards are.

I suppose in some cases, in some way, one might say this is sort of like what actually happened in Phase II; that is, we had a tripartite committee which developed the standards. And then after some members of labor and then management left the board, it was administered in the spirit of tripartitism, but taking over those standards and a different pattern of administration.

You all know, I'm sure, that Don Rumsfeld, who has been the director of the Cost of Living Council, has been nominated by the President to be Ambassador to NATO. And he will be succeeded as director by John Dunlop, a professor at Harvard and who has done such an outstanding job as chairman of the construction industry committee, and who is, I think, one of the most knowledgeable and experienced people in working at this class of problems that we have in the world, let alone in the country.

Now let me just say one word about the area of food costs, because it is of such great importance. And I think it is kind of a testing of determination: what, among the things that you can do, will you actually do? And we are going to work at this very hard. But we have been working at it. And let me just mention some of the things that have been done and are underway.

First of all, in the area of crop production for feed grains -- soybeans and so on -- we have about three hundred million acres, I'm told, that are sort of potentially available. Last year we had set aside sixty million acres. This year in the programmatic aspects of it, that was reduced to forty million acres. That happened some time ago. Yesterday decisions were taken to reduce that down to somewhere in the range of twenty-two or so million acres. And on January 19th, we expect to get reports on planting plans and so forth. And after we review those, we will see if we should take more acreage out of the set-asides. So that is a very large amount of acreage, additional planting, that is being put into place. And of course, I think, as a generalization, we have an opportunity right now as things have gone, with the demand there is for agricultural products, to maintain farm income through a process of greater volume at reasonable prices. And it may be that we can change, in a sense, the psychology of restricting supply all the time into a different psychology in the agriculture area, and the farmers can do well in the process, and our export situation can do well in the process, and our consumers can do well in the process.

We have taken a step administratively to see that there is passed by the Cost of Living Council all of the stream of marketing orders and agreements and marketing guides, and so on, that are put out constantly by the Agriculture Department, guiding the -- in effect, an effort to guide supply through

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this process. And this is an effort on our part to see that the consumer interest is represented as all of these guides are put forward. Not that the agriculture interest won't be; but this is an effort to see that the consumer interest gets a special look at it.

We have announced in late seventy-two a variety of moves: the removal of quantitative restrictions on meat imports for all of seventy-three; the temporary suspension of quotas on imported nonfat dry milk; and a variety of other programs of that kind. We are in the process of accelerating the disposal of stocks owned by the Commodity Credit Corporation and getting them out into the market. And that has gone quite far; there is not -- I don't want to suggest that there is a tremendous amount there, but there are -- there are some significant supplies and they will be sold.

We have announced the termination of extended CCC loans on farm stored grain, effective May 31, 1973. So this again is an effort to move that produce into the market, since the government will not pay the storage costs. We have eliminated, virtually eliminated, all export subsidies. And yesterday we took an action, the Department of Agriculture did, that should to expand livestock production by making it permissible, whereas earlier it was not allowed, permissible to use set-aside acres for year-round grazing of livestock. And that increases by quite a lot the amount of acreage on which you can graze.

Well, I -- I bring those out because they are substantively important. But I think they suggest the nature and the determination of our effort. And it is an effort guided fundamentally by a respect for what you can and you can't do. In the field of economics, as they say, you cannot shout at the tide and expect it to go back. You -- in economics you have to work with the situation; you have to impact the supply and impact the demand, and at the same time try to get some mileage out of a structure of controls that we feel have -- have been helpful to us in the past year and a half and can be helpful to us in 1973, and at the same time will be most helpful if we tend at the same time to the fundamentals. And the fundamentals have to do with budget policy; they have to do with monetary policy; they have to do with basic matters that have an impact on supply and demand.

So I would say insofar as most of the people here are concerned, as this affects you directly, you no longer have to make application to the Price Commission in order to do something that you think is consistent with the President's goals. It is up to you to self-administer. The President feels this is --

is very important to make a step like this, because we don't nt to get in the habit in this country of setting up a situation which more and more people are forced to and then find it reeable to go to government to get issues settled. We have take responsibility ourselves for our own businesses, our n collective bargaining. We are trying to put forward here sonable standards by which you can judge your conduct, and say to you it is yours to self-administer.

We will be watching. We do believe that conscience in part that still small voice that says somebody may be ching. So we'll be watching. And we can come in with our lbat and swing, if we to -- not in the punitive sense, but the prospective sense; and we won't hesitate a minute to it. But we expect that there will be a voluntary effort e, as there was in Phase I, as there was in Phase II. We deeply convinced that the minute one of these programs becomes in which all of you people in industry, who are so much rter than we are and work at it so much more, say, "All right, government has set up this program. Now how can we beat " -- as soon as that psychology takes hold, you can't -- 're done for. It must be voluntary. We must have cooperation. now we're taking a step and saying, "You administer it. e. Here are the guides, the standards that have been put ard. You apply them to yourselves." And in this process look for your cooperation, and we feel that this is our chance, s is your chance, to show that we can make freedom work.

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

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FOR IMMEDIATE RELEASE January 18, 1973

TREASURY'S MONTHLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders for $1,800,000,000, or thereabouts, of 349-day Treasury bills for cash and in exchange for Treasury bills maturing January 31, 1973 , in the amount of $ 1,700,320,000. The bills of this series will be dated January 31, 1973 , and will mature January 15, 1974 (CUSIP No. 912793 SL1).

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

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Standard time, Thursday, January 25, 1973. 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.

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Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Only those submitting competitive tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on January 31, 1973, in cash or other immediately available funds or in a like face amount of Treasury bills maturing January 31, 1973. 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.

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

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FOR IMMEDIATE RELEASE January 18, 1973

TREASURY ANNOUNCES FIVE NOTICES UNDER THE ANTIDUMPING ACT

The Treasury Department announced today five notices under the Antidumping Act of 1921, as amended.

In the first two cases antidumping investigations are being initiated, and in the other three cases an extension of time is necessary to complete the antidumping investigations.

In the first case the Treasury announced the initiation of an antidumping investigation on imports of polypropylene strapping from Japan. Polypropylene strapping is a non-metallic plastic industrial strapping which is a substitute for steel or rope as a banding or strapping material. This announcement follows a summary investigation conducted by the Bureau of Customs after receipt of a complaint alleging that dumping was taking place in the United States. During the calendar year 1972 imports of polypropylene strapping from Japan were valued at approximately $1.5 million.

In the second case the Department announced the initiation of an antidumping investigation on imports of iron powder (excluding alloy and sponge iron powders) from Canada. Iron powders are used for the fabrication of gears and various parts, particularly in the automobile industry. This announcement follows a summary investigation conducted by the Bureau of Customs after receipt of a complaint alleging that dumping was taking place in the United States. During the period of January through September 1972, imports of this merchandise from Canada were valued at approximately $1.5 million.

In the third, fourth and fifth cases the Treasury announced that an extension of time was necessary to complete antidumping investigations involving papermaking machinery from Finland, papermaking machinery from Sweden, and sulphur from Canada. These cases could not be completed within the 9-month time limit specified in the recent amendments to the Antidumping Regulations. An additional period of time, not to exceed 3 months, will be necessary before the appropriate actions can be

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taken. This additional time is necessary because certain complex issues relating to the treatment of possible sales below cost of production have not yet been resolved, and adequate consideration must be given to the possible impact of these issues on these current investigations.

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

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FOR IMMEDIATE RELEASE January 22, 1973

TREASURY ISSUES DUMPING FINDING
WITH RESPECT TO NORTHERN BLEACHED
HARDWOOD KRAFT PULP FROM CANADA

The Treasury Department announced today that it has issued a dumping finding with respect to prime grade and off-grade northern bleached hardwood kraft pulp from Canada. The finding will be published in the Federal Register of January 23, 1973.

On September 30, 1973, the Treasury Department advised the Tariff Commission that northern bleached hardwood kraft pulp is being sold at less than fair value within the meaning of the Antidumping Act of 1921, as amended.

On January 3, 1973, the Tariff Commission issued a determination that an industry in the United States is being and is likely to be injured by reason of the importation of such merchandise into the United States.

After these two determinations, the finding of dumping automatically follows as the final administrative requirement in antidumping investigations.

During the period of January 1971 through September 1972, imports of prime grade and off-grade northern bleached hardwood kraft pulp from Canada were valued at approximately $59.2 million.

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

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MEMORANDUM TO CORRESPONDENTS: January 22, 1973

Treasury Secretary George P. Shultz today sent to the President of the Senate and the Speaker of the House proposed legislation extending the Interest Equalization Tax for 2 years beyond its present expiration date of March 31, 1973.

A copy of the letter to the President of the Senate, and the draft bill, are attached. (Identical letter sent to the Speaker of the House.)

The Interest Equalization Tax (IET) has been in effect since July 1963 as a means of reducing the outflow of portfolio capital from the United States to developed countries. By raising the cost to foreigners in developed countries of borrowing or raising equity funds in the United States, the IET provides support for the U.S. balance of payments during the period before full equilibrium is restored.

The present IET law gives the President the authority to vary the effective rate of tax between zero and the equivalent of 1½ percent per annum on purchases of securities subject to the tax. The President has set the present tax rate at 3/4 percent.

The IET has been extended on four previous occasions since initial enactment. It was last extended in March 1971 for a two-year period.

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Attachment

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

JAN 26 1973

Dear Mr. President:

On behalf of the Administration, I am requesting the Congress to extend the Interest Equalization Tax for two years beyond its scheduled expiration on March 31, 1973, to March 31, 1975. I urge that this be done prior to the expiration of the tax on March 31, 1973.

Since its inception in 1963, this tax has contributed significantly to one aspect of the United States balance of payments position by restraining outflows of U.S. capital for portfolio investment in foreign stocks and debt obligations. In addition, the Interest Equalization Tax continues to reinforce the two other capital restraint programs -- the Foreign Direct Investment Regulations which apply to direct investment outflows by U.S. companies and the Voluntary Foreign Credit Restraint Program which applies to loans to foreigners by U.S. financial institutions.

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 would be no objection to the presentation of this proposal to the Congress and its enactment would be consistent with the Administration's objectives.

Sincerely yours,

George P. Shultz

George P. Shultz

The Honorable
Spiro T. Agnew
President of the Senate
Washington, D. C. 20510

Enclosure: Draft Bill

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A BILL

To provide an extension of the interest equalization tax.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That Section 4911(d) of the Internal Revenue Code of 1954 (relating to the expiration of the interest equalization tax) is amended by striking out "March 31, 1973" and inserting in lieu thereof "March 31, 1975".

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

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ATTENTION: FINANCIAL EDITOR

FOR RELEASE 6:30 P.M. January 22, 1973

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 26, 1972 , and the other series to be dated January 25, 1973 , which were invited on January 16, 1973, were opened at the Federal Reserve Banks today. Tenders were invited for $ 2,400,000,000, or thereabouts, of 91-day bills and for $ 1,900,000,000, 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 26, 1973 Price	Approx. Equiv. Annual Rate	:	182-day Treasury bills maturing July 26, 1973 Price	Approx. Equiv. Annual Rate
High	98.589	5.582%	:	97.094 a/	5.748%
Low	98.572	5.649%	:	97.081	5.774%
Average	98.576	5.633% 1/	:	97.088	5.760% 1/

a/ Excepting four tenders totaling $245,000
91% of the amount of 91-day bills bid for at the low price was accepted
73% 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	$ 44,920,000	$ 35,380,000	:	$ 47,640,000	$ 2,640,000
New York	3,276,090,000	2,108,140,000	:	3,075,960,000	1,724,440,000
Philadelphia	25,800,000	15,775,000	:	36,600,000	6,600,000
Cleveland	25,250,000	24,900,000	:	46,435,000	10,770,000
Richmond	17,780,000	7,780,000	:	14,000,000	3,900,000
Atlanta	18,370,000	13,145,000	:	14,340,000	10,110,000
Chicago	254,315,000	101,130,000	:	446,755,000	94,955,000
St. Louis	43,870,000	28,190,000	:	22,690,000	12,690,000
Minneapolis	30,500,000	12,495,000	:	27,515,000	5,460,000
Kansas City	34,735,000	18,005,000	:	24,535,000	12,605,000
Dallas	38,310,000	11,860,000	:	37,080,000	7,340,000
San Francisco	151,825,000	23,545,000	:	159,400,000	9,300,000
TOTALS	$3,961,765,000	$2,400,345,000 b/		$3,952,950,000	$1,900,810,000 c/

b/ Includes $195,370,000 noncompetitive tenders accepted at the average price of 98.576
c/ Includes $104,605,000 noncompetitive tenders accepted at the average price of 97.088
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 5.79 % for the 91-day bills, and 6.02% for the 182-day bills.

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

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FOR IMMEDIATE RELEASE January 22, 1973

U.S. - GERMAN
CUSTOMS REPRESENTATIVES MEET

Representatives of the United States and the Federal Republic of Germany opened today a round of talks between the Customs organizations of the two countries to establish a bilateral agreement to help both Governments in enforcing the Customs laws.

The meeting results from adoption by the Customs Cooperation Council of a model bilateral convention on mutual administrative assistance for the prevention, investigation and repression of Customs offenses at its meeting in June, 1967. In a subsequent meeting in June, 1971, the Council adopted a recommendation for the Spontaneous Exchange of information concerning Illicit Traffic in Narcotic Drugs and Psychotropic Substances. The latter included an invitation to consider the possibility of concluding bilateral or multilateral agreements on the subject based on the Council's model. The United States and the Federal Republic of Germany accepted the recommendations and today's meeting is the result.

The conference was opened by Assistant Secretary of the Treasury Edward L. Morgan, who welcomed the German Delegation led by Hans Hutter, Chief of the Customs Division, Ministry of Finance. Also attending the meeting are representatives of the Treasury Department and its Bureau of Customs, the Department of State and the Justice Department's Bureau of Narcotics and Dangerous Drugs.

The Customs Cooperation Council is a 68-member international organization concerned with the harmonization and simplification of technical procedures between the Customs services of member nations. The U.S. became a member in November, 1970.

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Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE WO4-2041

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FOR IMMEDIATE RELEASE January 23, 1973

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 1, 1973, in the amount of $4,200,775,000 as follows:

91-day bills (to maturity date) to be issued February 1, 1973, in the amount of $2,400,000,000, or thereabouts, representing an additional amount of bills dated November 2, 1972, and to mature May 3, 1973 (CUSIP No. 912793 QS8) originally issued in the amount of $1,901,175,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,800,000,000, or thereabouts, to be dated February 1, 1973, and to mature August 2, 1973 (CUSIP No. 912793 RN8).

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, January 29, 1973. 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

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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 1, 1973, in cash or other immediately available funds or in a like face amount of Treasury bills maturing February 1, 1973. 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.

Department of the TREASURY

WASHINGTON, D.C. 20220 TELEPHONE WO4-2041

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FOR IMMEDIATE RELEASE January 23, 1973

TREASURY POSTPONES CLOSING TIME FOR RECEIPT OF
TENDERS FOR MONTHLY BILL OFFERING

The Treasury Department, by this public notice, postpones the closing hour for the receipt of tenders for the 349-day Treasury bills to be issued January 31, 1973. The new closing hour is 1:30 p.m., EASTERN STANDARD TIME, Friday, January 26, 1973. The receipt of tenders had previously been scheduled for 1:30 p.m. on Thursday, January 25. No other changes are being made in the terms of the public notice inviting tenders, which was issued on January 18, 1973.

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

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FOR IMMEDIATE RELEASE January 24, 1973

GENE A. KNORR RESIGNS AS
DEPUTY SPECIAL ASSISTANT TO THE SECRETARY

Treasury Secretary George P. Shultz has accepted, "with great personal regret," the resignation of Gene A. Knorr, Deputy Special Assistant to the Secretary of the Treasury for Congressional Relations. Mr. Knorr will join Charls E. Walker Associates, effective February 1, 1973.

In accepting Mr. Knorr's resignation, Secretary Shultz cited his four years of outstanding service to Secretaries Kennedy, Connally and himself during a period of "unprecedented magnitude and diversity" in Treasury's legislative program.

As one of the Treasury Department's principal legislative representatives, Secretary Shultz listed Mr. Knorr's contributions to the enactment of major legislation in the fields of tax reform, monetary reform, economic stabilization, banking reform, international development assistance, and Federal assistance to state and local governments.

"You should be deservedly proud of the role you have played in this most significant record of legislative achievement," Secretary Shultz said, in expressing appreciation for a job "exceedingly well done."

Before coming to Treasury, Mr. Knorr was legislative assistant to Rep. Tom Kleppe (R.-N.D.). Previously he had been associated with the Chicago law firm of Peterson, Lowry, Rall, Barber and Ross.

A native of Sawyer, N.D., Mr. Knorr graduated from St. Olaf College of Northfield, Minnesota, and holds a law degree from the Northwestern University School of Law. He and his family reside in McLean, Virginia.

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

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EMBARGOED: NOT TO BE RELEASED UNTIL 12 NOON EST Jan. 29

STATEMENT

OF

SECRETARY OF THE TREASURY GEORGE P. SHULTZ

BUDGET BRIEFING: JANUARY 27, 1973

The revenue estimates contained in the 1974 budget show total receipts of $225 billion for fiscal year 1973 and $256 billion for fiscal 1974. Coupled with the expenditure estimates that will be discussed shortly, these revenue totals will result in deficits of about $25 billion in 1973 and about half that -- just under $13 billion -- in 1974.

This sharp reduction in the deficit is consistent with our overall policy objective. This objective is to prevent a new outbreak of inflationary pressures by maintaining a balance in the budget at full employment, with a decline in fiscal stimulus as full employment is approached.

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Our revenue estimates thus call for a substantial gain in receipts of $16 billion in fiscal year 1973 and a very large gain of $31 billion in fiscal 1974. These increases reflect the strong growth that the economy has experienced in calendar 1972, and which we expect again in 1973. Our present forecast for fiscal 1973 revenues, $225 billion, is the same as in our last official projection in September 1972. The vigorous economic expansion that we anticipated at that time is taking place, which explains why the revenue estimate has not changed.

The much stronger gain in receipts expected for fiscal 1974 compared to 1973 is the result of the various tax changes that have been made in recent years, as outlined in the table attached. In particular, the Revenue Act of 1971 reduced 1973 tax receipts. The change in revenues traceable to economic growth is only slightly higher in 1974 than in 1973.

Projected Changes in Budget Receipts
Fiscal Years 1973 and 1974

	Fiscal 1973 from Fiscal 1972	Fiscal 1974 from Fiscal 1973
	(billions of dollars)	
Revenue changes traceable to:		
Economic growth	+ 22.0	+ 23.8
Tax Reform Act of 1969	- 2.7	- 1.6
Revenue Act of 1971	- 7.7	+ 1.6
Changes in depreciation regulations	- 0.2	- 0.6
Social security changes	+ 6.6	+ 8.1
Other changes	- 1.6	- 0.3
Total	+ 16.3	+ 31.0

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

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ATTENTION: FINANCIAL EDITOR

FOR RELEASE 6:30 P. M. January 26, 1973

RESULTS OF TREASURY'S MONTHLY BILL OFFERING

The Treasury Department announced that the tenders for $1,800,000,000, or thereabouts, of 349-day Treasury bills to be dated January 31, 1973, and to mature January 15, 1974, which were offered on January 18, 1973, were opened at the Federal Reserve Banks today.

The details of this issue are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS: (Excepting 2 tenders of $630,000)

High	-	94.261	Approx. equiv. annual rate 5.920% per annum	
Low	-	94.144	Approx. equiv. annual rate 6.041% per annum	
Average	-	94.197	Approx. equiv. annual rate 5.986% per annum	1/

(67 % of the amount bid for at the low price was accepted)

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

Federal Reserve District	Total Applied for	Total Accepted	
Boston	$ 40,540,000	$ 20,540,000	
New York	2,434,490,000	1,485,490,000	
Philadelphia	32,675,000	8,675,000	
Cleveland	27,975,000	7,975,000	
Richmond	11,900,000	4,900,000	
Atlanta	2,275,000	2,275,000	
Chicago	275,970,000	142,220,000	
St. Louis	27,560,000	21,060,000	
Minneapolis	7,490,000	7,490,000	
Kansas City	29,175,000	23,175,000	
Dallas	25,890,000	5,890,000	
San Francisco	155,345,000	70,345,000	
TOTALS	$3,071,285,000	$1,800,035,000	2/

1/ This is on a bank discount basis. The equivalent coupon issue yield is 6.35%.

2/ Includes $42,960,000 entered on a noncompetitive basis and accepted in full at the average price shown above.

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

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FOR RELEASE AT 10:00 A.M., EST

STATEMENT OF THE HONORABLE GEORGE P. SHULTZ

SECRETARY OF THE TREASURY

BEFORE THE SENATE COMMITTEE ON

BANKING, HOUSING, AND URBAN AFFAIRS

MONDAY, JANUARY 29, 1973, AT 10:00 A.M., EST

Mr. Chairman, I am pleased to appear before this Committee today to discuss the Economic Stabilization Program. I am accompanied by Dr. John Dunlop, who has served as Chairman of the Construction Industry Stabilization Committee since it was established and who has been designated by the President to be Director of the Cost of Living Council.

The President has asked the Congress to extend the Economic Stabilization Act of 1970 for one additional year beyond its April 30, 1973, expiration date. He has asked that this request for extension of the Act be given early consideration by the Congress so that the Economic Stabilization Program can be continued without the creation of uncertainty or confusion which would be damaging to confidence in continuing progress in reducing inflation.

The attached materials describe the Economic Stabilization Program as it was modified by the announcement of Phase III on January 11, 1973. I'm sure that you are already familiar with the nature of the program. The materials attached include copies of: 1) The President's message to Congress announcing Phase III and his request for a one-year extension of the Act. 2) The Executive Order establishing the modified program of controls. 3) The release containing information on the main features of Phase III. 4) The release on the membership of the Labor-Management Advisory Committee established to advise the Cost of Living Council and 5) A statement on recent actions that should help stabilize food prices by increasing their supply.

I will draw from this material to highlight here the main features of the stabilization program as they are contemplated for 1973. In extending the Act, it is this program, and the stability inherent in it, that you would be authorizing.

Background

The anti-inflationary policies of the last four years have sharply reduced the inflation rate. Whereas four years ago prices were rising, according to various measures, around 5 or 6 percent a year, by the end of 1972 the rate had been cut nearly to half that level. This progress has given the United States the lowest inflation rate of any free industrial country.

The decline of inflation in the past year was accompanied by the largest rise of civilian employment in history and a substantial drop in the rate of unemployment. All-in-all, 1972 was a very good year for the American economy.

The main element leading to this good performance was a balanced use of fiscal and monetary policy. The excess demand which generated the 1965-68 inflation was first removed; thereafter a steady expansion was promoted so as to reduce unemployment without reviving inflationary demand conditions. Since August 15, 1971 these fundamental measures have been supplemented by price and wage controls.

Prospects are exceedingly favorable for further economic expansion and reduced inflation in 1973 and 1974. These can be the best years in America's economic history. But there are two trouble spots in this prospect.

One is that Federal spending may be so pumped up that the same forces are released that caused the earlier inflation. The other is that food prices may continue their recent rapid rise. The Administration will resist both of these dangers vigorously.

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The President submitted today a Budget in which expenditures do not exceed $250 billion in the current fiscal year and do not exceed the revenues that the existing tax system would yield at full employment in the next fiscal year. To stay within these totals is the essential requirement of sound economic policy in 1973.

The National Goal in the Fight Against Inflation

Our goal is to reduce the rate of inflation further in 1973 and to establish general confidence in the reasonable stability of prices beyond 1973. Specifically, we propose as a guide to the policies of government as well as to private behavior that the rate of inflation should be reduced to 2-1/2 percent or below by the end of 1973. The Government's fiscal and mone tary policies willbe directed to that goal. The Government will manage its own actions that affect prices in particular sectors, such as food, so as to help in this effort. Government will provide guidance as to private behavior that would be most consistent with the goal. And where necessary the Government will take further steps to assure that private behavior is consistent with the national goal.

The Place of Controls

The system of controls that began on August 15, 1971 with the 90-day freeze and continued with Phase II made a valuable contribution to the economic record of 1972. It helped to reduce inflation and put a damper on inflationary expectations. It also helped to bring about a situation in which wages were in better balance with living costs and the wages of the workers coming up for new wage decisions were in better balance with the wages of those who had previously obtained increases. Much has been done to pave the way for price stability.

These results were achieved in a manner that was fair, that did not impair production or productivity in any significant degree and that did not impose large administrative costs.

To help in assessing the place of controls in the future, an extensive consultation process was undertaken. Sixty-three consultation meetings were held. The over 400 individuals who participated represented a complete spectrum of interests. The views and comments obtained were most helpful.

After reviewing the results of this consultation process and the experience gained from operating the old system it was clear that the burdens of the controls would have mounted in the coming period if the old system had continued for long unchanged in an expanding economy. Red tape and administrative burdens, both for the Goverment and for the public would have expanded. Delays and interferences with the normal conduct of business would have become more serious. Inequities in the treatment of different individuals and businesses would have multiplied. Incentives to efficiency and investment would have weakened.

Features

Therefore the system was modified to achieve a continuing contribution to the anti-inflation effort with less danger of injury to the economy. The main features of the modified system are:

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- The Government will develop standards for private conduct that would be consistent with the national anti-inflation goal. The wage standard will be developed with the advice of management and labor.

- The standards will be self-administered. That is, businesses and workers will be able to determine by themselves what conduct conforms reasonably to the guides and will not require prior approval for their actions.

- Voluntary behavior consistent with the standards and the goal will be expected.

- Procedures will be established which will permit the Government to see whether conduct is reasonably consistent with the standards.

- The Government will retain authority to set mandatory rules, controlling future conduct, where it appears that voluntary behavior is inconsistent with the goals of the program. We expect the cooperative spirit of Phase I and Phase II to continue to sustain our efforts in Phase III. But, we will not hesitate to use this authority if that be necessary.

- Special programs will be maintained for food, health service, construction and interest and dividends.

- The Pay Board and the Price Commission are terminated. The Cost of Living Council will manage the Economic Stabilization Program during this phase.

Mr. Chairman, we believe this program can make a significant contribution to future progress in the fight against inflation in 1973. I pledge to you that it will be administered with fairness and with determination.

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Attachments

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

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FOR RELEASE AT 12:00 NOON, EST January 29, 1973

STATEMENT BY THE HON. WILLIAM E. SIMON
DEPUTY SECRETARY OF THE TREASURY
ON THE
DEPARTMENT OF THE TREASURY BUDGET
FOR
FISCAL YEAR 1974
MONDAY, JANUARY 29, 1973

Treasury's budgetary request for FY 1974 totals $34.4 billion. While this represents 12 percent of the total Federal budget, 95 percent of Treasury's budget consists of permanent and trust accounts--uncontrollable items that do not require action by Congress. For instance, gross interest payments of $26.3 billion, primarily on the public debt, take up the lion's share of these accounts.

The real story of the Treasury budget is in the 5 percent that goes to finance the department's daily operations. Treasury, unlike other departments, is similar to a business in that we spend money to make money. And we do all right, thank you!

With an operating budget of $1.8 billion, less than 1 percent of the Government total, Treasury will return $237 billion in FY 1974, or more than 92 percent of all Federal revenues to be collected during the year.

Our request for an increase of $79 million is just to meet the increasing mandatory workloads in all bureaus and to

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provide the needed strengthening of the revenue operations of both IRS and Customs. In other words, an increase in our budget does not add to the Federal deficit, but actually lowers it. That's because at the rate we are going now the more we spend in certain areas at Treasury, the more we contribute to the Government's revenue.

As a businessman new to government, that is a very pleasing concept with which to open a briefing on our budget. Now some details on how we raise all this money and some insight into the non-revenue producing areas of Treasury operations such as law enforcement.

The budget request for IRS is $1.189 billion, an increase of $41.8 million over last year. In comparison, gross tax revenues before refunds are expected to total $260 billion in FY 1974, up from $210 billion in 1972 and $231 billion this year.

The IRS administers a tax system that is the envy of the world. The efficiency of IRS itself stood out this year in the way it squeezed its assigned compliance responsibilities under the Economic Stabilization Program out of an already heavily burdened staff.

New funds are needed for IRS's frontline programs to help taxpayers prepare and file their returns and to improve taxpayer compliance. The increased workload for processing 2-1/2 million additional tax returns, 117 million in all, is expected to be met solely through increased productivity.

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As part of the effort to increase the availability and responsiveness of IRS to taxpayers' needs, we plan for the extension nationwide of Centiphone (a system providing taxpayers toll free telephone access to IRS offices staffed to help them). A computerized instant data retrieval system will become fully operative in FY 1974. We will keep many IRS offices open evenings and Saturdays during the filing season. Taxpayer service is not being expanded to the point where it represents competition with the returns preparation industry, but to a point where the IRS is effectively meeting legitimate taxpayer requests for information and assistance.

Additional IRS manpower will be devoted to expanding the audit of returns, fraud investigations, and collection of delinquent taxes. Most all Americans voluntarily comply with the tax laws. The tax dollars going unreported and unrecovered is cause for increasing alarm. This represents not only a loss of revenue but a danger to the efficiency of the system itself. Significantly, it is estimated that every extra dollar requested for IRS in the new fiscal year will generate over $6 in revenue, not to mention the inestimable return from a voluntary tax system bolstered by increased future compliance.

The budget request for Customs is $236.4 million, up $24.7 million over last year. In comparison, Customs duty collections in 1974 are expected to be $3.3 billion, up from an expected $3 billion this year.

Through improved collection and enforcement procedures, Customs is coping with an unprecedented expansion in international travel and trade. In FY 1972, for example, commercial aircraft passengers arriving from foreign ports increased over 18 percent. In total, Customs processed 225 million persons -- more than the entire population of the United States -- through U.S. ports of entry last year alone.

While the vast majority of importers comply with the tariff laws, the increase in trade has brought about a sharp increase in the incidence of attempted Customs frauds. Present examination and investigation efforts against fraud are restricted by limited manpower. The emphasis on Customs' investigative and enforcement capability will be broadened.

At the same time, the Bureau has been highly successful in the use of trained detector dogs for screening mail parcels, vehicles, and cargo. From the beginning of the program in April 1970, through November of last year, the seizures of 38,000 pounds of marijuana, 4,000 pounds of hashish, and 16 pounds of heroin at a street price of a quarter of a million dollars a pound, can be credited to the dog program.

The training of dogs to detect hard drugs has been a recent breakthrough and has prompted our present request to increase their number by 95.

For Treasury's newest bureau, Alcohol, Tobacco and Firearms, the budget shows a request for $73 million.

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While AT&F is our second largest revenue producer, with the taxes on alcohol and tobacco expected to exceed $7-1/2 billion next year in IRS receipts, over half the AT&F budget is spent on law enforcement. The bureau made 6,000 arrests last year in enforcing Federal firearms and explosives laws. It renders substantial assistance to state and local governments in law enforcement training, particularly in the area of bombing investigations, in laboratory support and in tracing the ownership of almost 1,000 weapons a month used in serious crimes.

To further strengthen the entire range of Federal law enforcement efforts, Treasury is requesting $6 million to continue contracting for the construction of a new $50 million Consolidated Federal Law Enforcement Training Center in Beltsville, Maryland. The campus-like center will provide facilities and equipment for all types of law enforcement training for personnel of 19 separate participating agencies.

A major new undertaking during the current fiscal year was the establishment of Treasury's Office of Revenue Sharing. A staff of only 27 has been responsible for already paying out over $5 billion of Federal funds to 38,000 state and local governments. Additional personnel will be required as the audit and evaluation functions of the program increase, but we're talking about a total of less than 80 people.

The Office of Revenue Sharing is within the Office of the Secretary which provides supervision to all Treasury bureaus and staff support to the Secretary. The Office of the Secretary has a FY 1974 budget of $17 million.

The Secret Service FY 1974 request for $64 million shows a slight decrease from its election year budget. The release of agents engaged in candidate and nominee protection permits the channelling of additional resources into criminal investigations of increased counterfeiting and forgery of Government checks and bonds.

Treasury's Bureau of the Mint will be required in FY 1974 to produce nearly 9 billion new coins for circulation, with a monetary value of more than $523 million, at a budgetary cost of $24.5 million.

Similarly, Treasury's Bureau of Engraving and Printing will, among other items, produce 3.2 billion new dollar bills for the Federal Reserve System and 28.8 billion U.S. postage stamps for the U.S. Postal Service. Engraving and Printing is fully reimbursed for its services by its Government agency customers.

The Bureau of the Public Debt's FY 1974 budget of $79.4 million will cover the administration of U.S. debt operations and the promotion and sale of U.S. Savings Bonds. There are currently 585 million individual Treasury securities outstanding. In the next fiscal year, it is anticipated that Government securities issued or retired will total more than 283 million pieces

The FY 1974 budgetary request for the Bureau of Accounts is $71.1 million. The Bureau, as the disbursing office for nearly all civilian Federal agencies, will issue and mail 581 million Government checks during the fiscal year, 61 million more than this year. Much of the increase is due to the added workload created by the Social Security Amendments of 1972.

The budget request for the Office of the Treasurer of the United States in FY 1974 is $12.7 million. The Treasurer's Office is responsible for the payment and reconciliation of checks issued by <u>all</u> Government agencies. In the next fiscal year, they will pay and reconcile 725 million Government checks and process 770,000 claims related to checks that are lost, stolen and forged.

This highlights the Treasury budget for FY 1974. In brief, it shows handsome returns to the American taxpayers for their investment in the Department of the Treasury and its work.

DEPARTMENT OF THE TREASURY

SUMMARY STATEMENT

	1973 Proposed Authorized Level			1974 Budget Authority		
	$ in Mil.	% of Total	End of yr. emp.	$ in Mil.	$ of Total	End of yr. emp.
A. Operating Accounts	$1,696.7	5%	88,741	$1,775.9	5%	94,189
B. Miscellaneous Permanent and Indefinite Appropriations	291.8	1%	4,354	330.8	1%	3,832
C. Interest	24,380.5	70%	---	26,280.2	76%	---
D. Trust Accounts	2.0	---	2,487	2.0	---	2,511
E. General Revenue Sharing	8,294.7	24%	---	6,054.8	18%	---
F. Advances and Reimbursements	---	---	7,411	---	---	3,479
TOTAL TREASURY	$34,665.7	100%	102,993	$34,443.7	100%	104,011
Offsetting Receipts	-1,911.7		---	-1,832.1		---
NET TREASURY	$32,754.0		102,993	$32,611.6		104,011

January 23, 1973

Attachment A

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DEPARTMENT OF THE TREASURY
OPERATING ACCOUNTS

	1973 Proposed Auth. Level In Mil. $	1973 Average Positions	1974 Budget Authority In Mil. $	1974 Average Positions	Increase or Decrease 1974 over 1973 Amount In Mil. $	Increase or Decrease 1974 over 1973 Percent
Operating Accounts:						
Office of the Secretary	$16.3	632	$17.0	718	$ .7	4%
Fed. Law Enf. Trng. Center:						
Salaries and Expenses	2.0	75	2.2	83	.2	
Construction	---	---	6.0	---	6.0	
Bureau of Accounts:						
Salaries and Expenses	63.3	1,427	71.1	1,540	7.8	12%
Govt. Losses in Shipment	.3	---	.8	---	.5	
Bureau of A. T & F.	75.5	3,915	73.0	3,805	-2.5	-3%
Bureau of Customs	211.7	11,745	236.4	12,661	24.7	12%
Bureau of E and P Fund	3.0	---	---	---	-3.0	
Bureau of the Mint:						
Salaries and Expenses	24.0	1,513	24.5	1,554	.5	2%
Construction	2.0	---	---	---	-2.0	
Bureau of the Public Debt	74.0	2,478	79.4	2,467	5.4	7%
Internal Revenue Service	1/ 1,147.0	72,900	1,188.8	74,450	41.8	4%
Office of the Treasurer:						
Salaries and Expenses	11.3	891	12.7	948	1.4	12%
Check Forg. Ins. Fund	1.8	---	---	---	-1.8	
U.S. Secret Service	64.5	2,817	64.0	2,817	-.5	-1%
TOTAL, Operating Accounts	$ 1,696.7	98,393	$ 1,775.9	101,043	$ 79.2	5%

1/ Includes costs for the Economic Stabilization Activity in our fiscal year 1973 budget of $42.3 mil. If this amount were excluded the percent of increase would be 8%.

January 24, 1973

Attachment B

mike

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LUNCHEON

PRINCETON CLASS OF '42

FOREIGN SERVICE CLUB

January 27, 1973

- - -

PRESENT:

GEORGE P. SHULTZ
Secretary of Treasury

DEWEY BARTLETT
Senator
State of Oklahoma

- - -

P R O C E E D I N G S 126

(The recorded proceedings begin at this point.)

MODERATOR: --and they set up a committee that includes these outstanding gentlemen: Jack Purlin, Dick Steeple, Monty London, John Grich and Ed Eisenhardt.

Out of this, with tremendous planning and effort and thought, came this great gathering, and I think you ought to give these guys [Inaudible].

(Applause.)

I would like to make a few announcements, if I may, before we get started.

Well, now from the standpoint of the Treasurer's report, I can report he's present, he has submitted a report, and it's in good order.

(General laughter and applause.)

How's that for moving?

(General laughter.)

The Secretary's report -- I can say that he's still in Florida. He would have liked to have been here.

An interim Secretary to Health has been appointed -- Ted Sill. They're both doing a great job, and you can count on it.

(General laughter.)

All those that would like to approve the minutes of the former meeting, please let it be known.

(General laughter.)

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Thank you.

We've got a very nice letter from Phil Chaff, our member on the Board of Trustees. Phil could not be here today. He says, "Mary and I are very sorry we won't be able to meet with you and the other members of our class this weekend. I think it's a very imaginative idea and congratulate those who thought it up and are putting so much work into it to make it a success. My very best to the honored guests, including George Dewey and Jack. For whatever it's worth --"

VOICE: Who's George Dewey?

(General laughter.)

MODERATOR: I'll tell you one thing. It's not the same Dewey that ran in 1948.

(General laughter.)

MODERATOR: "For whatever it's worth, my observation and experience to date as a trustee is that the university has its head screwed on pretty straight. I think Bill Boyd could very well turn out to be one of the great university presidents of his time. I like the way he handles problems, and he has had to face a number of not only complicated ones, but ones that were highly sensitive in terms of people's emotions. I also believe Bill has surrounded himself with a very strong management team. As most everybody knows, things have become quieter on campus. Now that the Vietnam War is over, let's hope it stays that way for a while. Mary and I will be thinking of you on Saturday."

Monk Morris and Dick White also were not able to attend, and they both sent messages of congratulations to the committee for such a great job.

Now, a few things in regard to the nitty gritty --

VOICE: Who?

(General laughter.)

MODERATOR: I didn't know this was such an intellectual group.

(General laughter.)

MODERATOR: We've got 125 people present here, and we'll probably have ten or fifteen more over at the reception, which is great. That includes about 65, 70 classmates from 1942. Pretty great grouping, I'll tell you.

Now, we're moving from here, of course, over to the State Department and looking at those lovely spots over there. And Jim Leonard and Jack Snedinson have made arrangements for this, and they're to be thanked and congratulated for it.

And when we leave here we will go over there, and then at 5:00 we'll go to the Woodrow Wilson Museum, which was Woodrow Wilson's former home. It will be open at 4:30.

And a couple of thoughts in regard to this, wear your name tags because if you don't have those you might have

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to pay again, which is pretty important.

Secondly, across the street from the building there has been some spaces left, and it's marked "Emergency. No Parking." But this has been done through the committees who insure the classmates [Inaudible].

(General laughter and applause.)

There are also a list of restaurants at the door -- all kinds of restaurants and their locations -- in case after we get through with the cocktail party this afternoon you want to get a roof and go there. And this will be some snacks and drink at the Woodrow Wilson Museum.

Oh, we're in the middle of lunch.

(General laughter.)

I trust if anybody needs a direction for the events this afternoon, you can get another copy of this plan.

VOICE: Who drew this map?

MODERATOR: I don't know who drew this map. It wasn't an engineer, that's for sure.

(General laughter.)

Now I'm going to call on a distinguished member of the Class of '42 and a very prominent, famous individual here in Washington, D.C., known to all of you, who has been working hard in conjunction with this committee, and I know he'll want to welcome you to Washington and have a few remarks

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to say.

None other than John Nevius.

(Applause.)

MR. NEVIUS: Thank you, Pete.

Pete said that I could have about two minutes of this 45 minute tape that he's got going there, and after two bourbons I decided that I would make a quick four minutes out of it if you'll bear with me.

MODERATOR: Thank God, you didn't have any more, Jack.

(General laughter.)

MR. NEVIUS: First of all, I really want to extend a very, very cordial welcome on such a distinguished turnout of classmates.--

VOICE: Forget the politics.

(General laughter.)

MR. NEVIUS: --To come to Washington on this memorable occasion. That includes George Dewey and nitty gritty.

(General laughter.)

We're really very, very pleased that you would cluster in such large numbers with such enthusiasm, for an occasion like this, and I hope it will be the beginning of a very fine tradition.

You know, as I was driving over here I began to think about Washington and Princeton, and politics as Howard put it; and it occurred to me that it's been a long time since Princeton has been active in the politics and statesmanship of our nation.

In the early days with fellows like Aaron Burr and Woodrow Wilson, there were a lot of Princetonians visible, but up until very recently that has not been the case. And it's been a long time since we've had a Princetonian as a President.

And there has been people like Peter Frelinghuysen in the House and an occasional fellow here and there, but the prospect of a Princetonian in the White House has been slim for a long time. And it pleases me to think that in casting about a lot of '42's have tried to start reversing this trend, and the great bulk of them, I'm proud to say, were Republicans.

And the fact of the matter is that '42 Republicans are the kind of guys who like to tackle a tough job. And as casting about to see who might be among us a possible ultimate new President of the United States as a 1942 Republican, I started off thinking about old Drinks Jones. You know, he tried for the Congress and couldn't get nominated. Then Pete himself, our president, he got nominated twice but didn't quite make it -- the registration was running against him pretty hard, so he didn't make it. And just a couple of years ago I tried it, too. I ran for Congress and got nominated but didn't make it.

And then there are a number of guys like Jack Guthrie who really copped out by going off on a tangent somewhere where they wouldn't dare admit whether they were Republicans or not.

And Jack Stevenson, he copped out by taking an appointive position, you see; so without having run for election, he's not going to make President within the foreseeable future.

And in a very real sense the same thing applies to George Shultz. George is very close to the President, but in a different way.

(General laughter.)

He's simply non-elected. And so when you really filter through all the names that you're casting about, as I did, you get down to the fact that we've got one horse to bet on, and that's Dewey Bartlett.

(General laughter and applause.)

And you know, that public relations is necessary among other things in running for President, and so in order to help Dewey on his way, shortly after his arrival in Washington we've started to work on this thing.

The City Council and I sat down to noodle this -- they're three Republicans out of nine in that group -- but we managed to work out a little something to solve that problem. And so we got a little resolution together which I'd like to take the last of my two minutes to read to you, and it will take two minutes to read it.

(General laughter.)

If you'll bear with me, it's Resolution No. 42-1.

(General laughter.)

And it was adopted on January 26, 1973, and the title "Forty-two Day in Washington Proclamation." It reads like this.

"Whereas, there has been a notable deterioration lately of workmanship quality demonstrated by appropriate authorities in the selection of subject matter for special recognition by the official designation of years, weeks, and days, whether internationally, nationally, or locally; and whereas, even on an international basis the Chinese have failed for years to reverse this deplorable trend by decreeing the Year of the Tiger; and whereas, instead inconsequential things like National Mock Orange Month and Elvis Presley Week in Peoria have amply demonstrated the miserable level to which this ancient and respectable art has been reduced; and whereas, on the other hand a unique opportunity to reverse this deplorable trend in one fell swoop has suddenly presented itself by the election of the Honorable Dewey F. Bartlett as the new U.S. Senator from Oklahoma, and President Nixon's appointment of the Honorable George P. Shultz, Secretary of Treasury, as the new Chairman of the Council on Economic Affairs.

"Now, therefore, in celebration of this belated recognition of the inherent merit of the Class of 1942, and by the residents of Oklahoma and 1600 Pennsylvania Avenue, respectively --

(General laughter.)

"-- And by virtue of the authority invested in me as Chairman of the Washington, D.C. City Council, be it hereby resolved that Saturday, January 27, 1973, is hereby designated '42 Day in Washington; and two, that this designation shall take effect immediately."

(Cheers and applause.)

MODERATOR: Thank you very much, Jack. That was great. It is gratefully accepted.

VOICE: How come it has the rent seal on it?

(General laughter.)

MODERATOR: I'm going to say to the committee right now we won't need the paid entertainment. We've already had that.

(General laughter.)

We'll save money there, Ed.

(General laughter.)

Great job, Jack. Great job.

I want to also thank Jim Leech of the Class of '64 for his great efforts in helping the committee to put on this affair; and Mrs. Harriet Alexander, who's Secretary of the local Princeton Club, for all the efforts that she has made in making this affair what it is today.

(Applause.)

At this time I would like to call on another distinguished member of the Class of '42 for the presentation of an award of sorts --

(General laughter.)

-- Topper Cook.

Topper, where are you?

MR. COOK: Here I am.

It's a little hard to follow you, Jack, because I thought I was just going to be sort of comic relief here.

(General laughter.)

But the media is often considered to be the enemy of Government, and I want to put things right.

(General laughter.)

I have some prepared remarks here, because being from the media where we always have a few things to say. But what I have here in this NBC envelope is a special media tribute and grand award to the men of '42 in the nation's service.

Before getting it out I have my prepared remarks.

If sometimes it seems the press comes on too strong with you public servants, please be advised our antagonism has a worthy aim. We aim at keeping you in your place.

Remember, you belong to the people and not the other way around.

(General laughter.)

We media guys salute you, slaves.

(General laughter.)

We know you are making sacrifices. Sure you enjoy the exercise of power, but you're hurting income-wise. We say be patient, men. When your stint is done, you'll get back to a hundred thou per annum [Inaudible].

(General laughter.)

Generals, you have general dynamics to look forward to.

(General laughter.)

In return for our commiseration, gentlemen, we only ask you that you permit us to raise the issue. We, the people, have an interest in that military-industrial complex of yours [Inaudible].

(General laughter.)

And so, not strictly as antagonists but friendly antagonists, we have an award to make today. It was out thought that we might furnish you all, or at least those of you who must court the favor of the polls, with certain aids

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calculated to assure you of public acceptance.

Having brought up a generation on cheap situation comedies and such grungy periodical as "Playboy Magazine," we media chaps are very knowledgeable about what the people want.

We thought of distributing such things as hairy hairpieces --

(General laughter.)

-- Sideburns, that you could stick on and that wouldn't even come off when dipping in the ocean off Key Biscayne.

(General laughter.)

Contact lenses; mod, flowered, print shirts with long pointed collars --

(General laughter.)

-- Bell bottom trousers; boots for shoes; facelifts. You wouldn't believe what a lot of great gifts that have come to our minds.

But in the face of the number of worthy candidates here, and bearing in mind the well-known poverty of us in the fourth estate, we have decided on a single media award to a single recipient who shall represent you all.

George Shultz, we media people have finally -- well, almost finally -- learned to spell the Shultz without the "c."

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(General laughter.)

Maybe after some more time in the Cabinet we'll call you Doctor, too, which is yours as much as it is Kissinger's; and that's a point.

We wish, however, to address ourselves to the question of the appearance that you make on television --

(General laughter.)

-- For the betterment of which this special award --

(General laughter.)

We have observed you as Administration spokesman with a multitude of weighty economic matters, and we've seldom seen you in a light and frolicsome mood.

(General laughter.)

Unemployment is up, and you are down.

(General laughter.)

There's never an economic question, George, that everybody is happy about. There is always some character who has different statistics from yours.

So we media chaps have designed a format to make your every moment on television a shining moment of joy; and here's the gimmick.

(General laughter.)

This is called a happy monkey.

(General laughter.)

You can bring along this happy little monkey to television studios. Okay, some chump on "Issues and Answers" asks how come you support wage and price controls? You hate wage and price controls.

You've already wound up this little fella here --

(General laughter.)

-- And now you put him down, and you let him go.

(General laughter.)

And the camera pans down off your face, George.

(General laughter.)

And it's great television.

(General laughter.)

On "Meet the Press" they ask how come the budget's going haywire? On "Face the Nation" they needle you about Meany and inflation, the OEO?

(General laughter.)

So the camera pans down, and with this monkey here you won't have to say a thing. They'll love it.

(General laughter.)

So, congratulations, George, and to all the rest of you classmates in the nations's service, we'll be seeing you on the tube.

(General laughter and applause.)

MODERATOR: Great, Topper. Thanks very much.

For the information of those gathered here, Topper is the bashful director of the NBC News in New York; and so that adds to the levity of the [Inaudible].

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(General laughter.)

George, get him to do the clapping.

(General laughter.)

As Bruce Wilson said when he came through the door today and he saw everybody inside here, he said, "This reminds me of the Stork Club." He said, "I haven't seen so many old bald-headed guys with pretty girls in a long time."

(General laughter.)

Wilson always knows the right remarks to make.

(General laughter.)

I would like now to give a partial list of those many members of the Class of 1942 who have devoted so much time and so much dedication and so much effort to this great country of ours. And I am going to read the list here, and it won't include everybody, obviously.

We've got people in city government; we've got people in county government. We have city managers, and obviously, in state government and Federal Government.

And the purpose of this gathering is not only to renew the friendships and associations of the Class of '42, but to honor those who have done such a tremendous job as patriots working for our country.

And here is the list. And hold your applause, if you will, until we've gone through the list, and then we

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can applaud.

Of course we've got George Shultz, Secretary of the Treasury; Dewey Bartlett, newly elected Senator from Oklahoma; Jack Nevius, Chairman of the City Council of the District of Columbia, appointed by the President; Jack Guthrie, Major General, U.S. Army; Honorable Jim Leonard, Assistant Director, U.S. Arms Control Agency -- Jim holds the personal rank of Ambassador; Jack Stevenson, legal adviser to the Department of State -- Jack has recently resigned that position after notable service there to this country; Joe McFarland, Special Assistant to the Auditor General of AID; Newport Coppeir, Colonel, U.S. Army; Bill Price, Colonel, U.S. Air Force; Ken Condontere, Historian, Department of Defense; Howey White, chemist, National Bureau of Standards; Jim Baldwin, the World Bank; Duncan McKay, Inner American Development Bank; Monk Morris, General Counsel in the Selective Service System; John Stutzman, American Consulate General in Vancouver, B.C.; Bob Bender, professor of history at the U.S. Naval Academy; John Bender in the State Department; and Augie Williams in the State Department.

And I know we've missed many others, but these are a distinguished bunch of gentlemen who have served and are serving in our nation's service; and I think we ought to give them a great [Inaudible].

(Applause.)

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Thank you.

Now, we have an award here for the individual that came from the greatest distance. It has been reported to me, subject to a change momentarily and the Chair will entertain any motions to the contrary, that this should be awarded to none other than Richard Pate of Denver, Colorado.

(Applause.)

This came from the fiftieth reunion of the Class of 1906, and I hope you keep it. Not that you need it, but it's [Inaudible].

(General laughter.)

MR. PATE: [Inaudible].

(General laughter and applause.)

MODERATOR: I think also at this time we should pay particular tribute to the wives of all the members of the Class of '42 who are not only as much members of our class as their husbands, but who have been so important in all of the lives of all of the members of this class.

And I think we ought to give them a rousing hand.

(Cheers and applause.)

To tell you the truth it's been a point of much conjecture to me as to how some of these guys did as well as they did.

(General laughter.)

Strike this from the record.

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(General laughter.)

Now, I am going to call on a distinguished gentleman to make a few remarks, who has been president of our class before. He's been a distinguished member of this class in everything that he's ever done and in every way; and he's now a member of the Senate of the United States, and if there ever was a guy who deserved to be there to represent this country and his own state, this is the man.

And I'm proud to present to you at this time the member of the Class of 1942, a great guy, fine family man, and a tremendous [Inaudible].

(General laughter and applause.)

SENATOR BARTLETT: First I want to thank all of you for being here and for giving Anne and me this opportunity of beginning our six years in great style by being with good friends of the Class of '42. I can't think of a better way to start this out.

When Pete first mentioned Tom Dewey, I was very happy in our campaign that I had no relationship to him, and I'm very pleased that Jack has launched my Presidential campaign.

(General laughter.)

George, be sure to tell Spiro to be a little worried.

(General laughter.)

But it reminds me of a person from Oklahoma whose name might be familiar. Fred Harris had a little campaign going for the Presidency, and he's now a resident of your city, Jack, and out of politics in Oklahoma. So it may be just a little premature.

(General laughter.)

I recall what Topper said about politicians belonging to the people, and I was thinking also of a very kind letter I had from Jack Nevius saying that he was so happy that I'm a member of the District Committee in the Senate. And I want to sort of make a confession to Jack because he said that it was so nice of you to choose being on this committee; and I want to tell you just how this whole [Inaudible].

(General laughter.)

-- I want to tell you how this statesmanship process works. There were two openings for the minority party; there were five freshman senators. And when they mentioned the District Committee, two of them right away said not on our life. So that left three of us.

The junior one felt that he was lost anyway, so he said well, I volunteer. That was down to two. Jim McClure from Idaho was the other one, and he said Dewey, I'll tell you what I'll do. I'll flip you for it.

(General laughter.)

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VOICE: Who won?

(General laughter.)

SENATOR BARTLETT: Well, I said tails never fails, and he said it just did.

(General laughter.)

But, Jack, I am very interested in learning more about your city. I'm a resident. I'm in the District.

(Applause.)

We're looking forward to that very much. We certainly want to remember what Topper said about the importance of the people; and of course, the people that are important to me are in Oklahoma, but also they're here.

And I want to thank you for helping me in the campaign. There were many members of the class who did. We had sort of an uphill struggle, and we were lucky, and so here we are.

It's a real pleasure for both Anne and myself to be here, and many of you she has not met before, and she's enjoying that very much.

Pete, I'm very pleased that you're the El Presidenta, and I'm very pleased that you decided to have the meeting here. I'm looking forward to hearing what George has to say. I've already today given him a couple of little small problems I had, so we all rely on George.

(Applause.)

MODERATOR: Thank you very much, Senator.

It might be of note and interesting to this group that the Senator from Oklahoma -- junior Senator, I might add -- moved into the Senate Office Building at office number 4215, and it's called SOB 4215.

(General laughter.)

George Washington spoke in one of his Inaugural addresses about the spirit of the party. He was referring to partisan politics. And the reason I mention this is because this gathering today to honor people who are serving our nation in our class is in honor of people who are dedicated to the interest of this country.

And my reason for making this point is this -- it refers to my great friend, George Shultz. The last four years in this country, the last eight years, maybe the last fifteen years in this country, has been a time of tremendous change, revolution, the like of which we've never seen before, not only in our lifetime, but in other people's lifetime.

Not because of the violence -- we've had that before -- not because of the specific changes, because of the multitude of things that have taken place in their country, that have changed it, and have changed the people who think.

Well, when a guy serves, either as President of the United States of America or when he serves in the Cabinet of the United States as an advisor to the President of the United States, and in our particular situation, a very close advisor, this guy is subject to the wracks and pains and the stresses and the strains that normally we in business may not get.

And it's a tougher job to support a President of whatever party he may be, when he's under severe attack by critics, as this country does in its normal political procedure.

So we've got a guy in our class that's been through this, and he's done an outstanding job. But he's been through the wracks, the strains, and the pains, and the criticism.

And I've talked George Shultz today to talk to us a little bit about his experiences or whatever he'd like to say insofar as he can about the things that he's doing, and he's going to do that. But I think we as members of this class and as patriots in this country should give George Shultz one of the best, rousing welcomes that a guy's ever had.

And now here is [Inaudible].

(Applause.)

SECRETARY SHULTZ: I appreciate that very, very much indeed.

Charter members of the Bartlett for President Club. Dewey, I think it's been a very educational lunch, and Topper has now displayed to us what NBC considers to be real news.

(General laughter.)

(Applause.)

Pete asked if we could have some questions of discussion here, and I said I'd be glad do but I wanted to say a few words first on the subject of the next four years.

The day after the announcement of the settlement in Vietnam, the President had a Cabinet meeting and passed out these booklets. And it turns out to be a four year calendar which he has written a little bit in the front, and you turn to 1973 and here's January 20th and it says, "One thousand four hundred and sixty-one days remaining."

(General laughter.)

And January 20th, 1977, "No days remaining."

(General laughter.)

And he really had two messages for us in presenting these four year calendars for the members of the Cabinet to use. The first one was well, that's not really very many days, so let's use every one. Let's make them count because they go by very fast.

Somebody said in one of our meetings, the days are long but the years are short; and they are very short, as we work on the kinds of problems that we have.

I think the other message, which is very Nixonesque, really, is that you don't have to accomplish everything today.

That a great many of our problems do not of their nature yield to things that you do today that get them straightened out tomorrow, but oftentimes have the characteristic that you have to do something that is very unpleasant and difficult today for the sake of achieving something a year from now or two years from now.

And so, I think the message was to have a sense of strategy; and I suppose, have a sense of the next four years in the things that you do every day in trying to do something significant.

So let me just say a word about the next four years in the perspective of the last four, because I think we can advance the thesis that at least we have the opportunity for a great four years for America ahead of us.

When you consider the contrast between today and four years ago, I think we see how striking our opportunities are and how different, thinking of this as a second term in the Administration, how different our opportunities are in the second term from the first.

Undoubtedly, the most important thing which we say -- I doubt that there's a person in the room who really realizes it and can have it sink in -- is that we have peace. I say I don't think it sinks in. I don't think anybody really believes it somehow or other. It's been such a long and drawn out, difficult war; and of course, we still have a ceasefire to get in Cambodia and Laos. But nevertheless, we have peace.

And that is just going to make all the difference in the world in my opinion. I know that in looking at it from the standpoint of the economic problems, it is the case that we have already seen, in a sense, the quantitative impact of the winding down of the war -- and that's behind us, not ahead of us -- so there is a sense in which you could say there is no particular economic impact to peace. And yet, in the general psychology of the country and the sense of whether or not our defense problems, budget problems, and so on may break away from us, it's a matter of overwhelming significance.

Second, as we look back and contrast today with four years ago, granting the great problems that we have -- cities, and I'm sure the problems on the campuses -- nevertheless, we don't have that feeling of exploding just around the corner. We haven't had riots.

We don't have this feeling anymore that we are subject to blackmail, that we better do this or that or there's going to be a riot somewhere. We've gotten over that. And we now can go on and think more constructively about the problems that we have, and I think are able to think more realistically about them.

And if we have something that has been tried and hasn't worked, we can have the gall, almost, to say well, we tried that and it didn't work so let's stop. At least I'd hope we can do that. We're trying to do that in the budget the President is sending up.

I've said in looking around at Government there's a sort of a law about Government. Government can't stop doing anything. Whatever it does, it just keeps doing it, and the only question is whether it does more or the same amount.

Well, we're trying to stop some things. And I think that the psychology has changed enough so that if something doesn't work, it's possible to say so and get away with that.

Third, from the standpoint of our economic problems broadly, we have a raging inflation to contend with and to get turned around; and that, combined with a need to wind down war activity, met a very difficult kind of transition -- kind of a compound type of problem.

Well, we have now absorbed a reduction in defense-related employment of about three million over the last four years, had our crunch, and have an economy that is expanding strongly and a rate of inflation that has been declining. So we're on the threshhold, from the standpoint of the economy, once again as we were in the middle sixties of having an economy that is expanding; and if we can exercise discipline -- and that's a real if -- but if we can exercise discipline and

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get into a sustainable path where we have an expansion that can keep going without generating anew the problem of inflation that has been wound down at least to some considerable extent.

So we have a different kind of a problem, a different set of opportunities. And turning to the international sphere, rather than being constantly preoccupied with the military dimension of that, we can, with the President's opening to the Communist world, the end of the Vietnam War, think about a constructive pattern of international economic relationships which we know will be difficult and testy at all times, particularly when it's opposed with our friends. But nevertheless, that represents an opportunity that has not been with us to the same extent by a longshot in the first four years of the Administration.

So, I think that we stand here at the beginning of this new cycle, so to speak. It's a new political cycle. It is a new beginning in the sense that we find ourselves about at peace for the first time in a long while. It's a new economic cycle that we're looking at. And we have an opportunity in working and trying to put something worthwhile down in each one of these squares, and also to try to have those things be matters that have some sense of strategy to them.

It's in that sense that it seems to me we have a great opportunity ahead of us in the next four years, and I trust we'll be able to work with the United States Senate --

(General laughter.)

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--In bringing that to fruition.

Pete, I'd be pleased to respond to questions or whatever anybody would want, or maybe you want time to go over to the State Department.

(Applause.)

MODERATOR: The Secretary said he'll answer any questions that you might have. If you have some, I suggest you put them to him.

Mr. Reese over here.

MR. REESE: Coming from a city we see every day before us the various Federal programs that are being cut back or cut off. I think everybody recognizes that a number of them have failed and don't borrow with the fact of the cutback.

I think the real problem that a lot of people in the cities are concerned with is is this Administration going to continue to be sensitive to the problems in the cities and try to develop new programs that will work, because let's face it. The problems are there, they're acute, they must be solved if we're going to have a country.

And I think it would be helpful to hear your views on that or what the views of the President are with respect to this critical problem.

SECRETARY SHULTZ: We briefed on the President's budget this morning, going up on Monday; and there are a whole bunch of charts in there, but one of them is a chart of grants in aid to the states and cities. And the number goes relentlessly up, and it goes up from '72 to '73 and up from '73 to '74, and is projected up in '75.

To some extent we don't take any particular pride in that because we have not had the view that you solve these problems by throwing money at them. And as you suggest, I think there's a lot of evidence that those things haven't worked.

There are many public housing projects around in the cities of this country that nobody will live in and are being torn down. There are many efforts at helping the poor in housing that have wound up helping land values and real estate developers more than they have the poor.

And so we have felt it's a good idea to have a moratorium, take a breath, let the $3 billion that's in the pipeline be spent -- it's really amazing how difficult it is to shut off -- but take a second look.

Now, I think the heart of the President's thinking, however, on this subject is something different, and the flagship of it is general revenue sharing. That is, the program which sends money to the states and the municipalities, the units of general government, without any particular strings

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involved as to their use.

Now, that program basically passed the Congress on the basis of the fiscal crisis of the states and the cities. I think to a certain extent that was a myth. The states and the cities fundamentally are perhaps better off than the Federal Government is in their finances -- at least they are now, although that is not true in all cases.

But that was not what the President thought was important about general revenue sharing. He has said many times in public and in private, and he developed himself the idea that he would sign that bill Philadelphia at Independence Hall. What it has stood for in his mind is the importance of drumming on people their own responsibility to solve their own problems and to put into their hands -- if general revenue sharing stands for that to some extent -- more resources to do it with. But to, in a sense, get away, Hank, from exactly your question -- what is the Federal Government going to do by way of programs to solve these problems. Answer: what are you going to do to solve the problems in your city, in your state?

And we have the conviction in this Administration that if the problems are going to be solved really well, they are going to be solved out of an effort, town by town, city by city, state by state, to identify the problems that you have, see what you can do about them, do that about them,

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and to make yourself count in that way.

The President's Inaugural was about that; the general revenue sharing program was about that. And I think that there is a very definite thrust here to say that we look to you to develop the right solutions for your community. And the evidence abounds that the Federal Government, with whatever wisdom it may have, does not know as much about your community as you do. We can mess things up beautifully if you give us half a chance.

(General laughter.)

I would say, for example, that the energy crisis in this country is a monument to the Government's ability to screw up the details.

(General laughter and applause.)

You know, have a little faith in yourself. That's the answer that the President is giving.

VOICE: Just give us a little money to work with.

(General laughter.)

SECRETARY SHULTZ: The general revenue sharing program will put out over $30 million in a five year span, and the grants in aids in the states and cities in the '74 budget outlays come to, I think, something like $42 billion; so that's quite a piece of change.

(General laughter.)

MODERATOR: Time is short, and I know you have a lot of questions, but I think there's somebody over here -- one more question, if you will.

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VOICE: George, I'd like to address a question to your particular area area of expertise which is inflation. I was reminded of it as I came over here when the taxi cab driver in a conversation said he was concerned about inflation.

My question is this. The majority of the people in this country, I think at all economic levels, felt that Phase I and Phase II were necessary and that they were effective.

I think that the majority of the people were surprised that Phase III came so abruptly, but even more so that almost nothing replaced it in the minds of most people, and that there aren't many guidelines, and I think most people question whether they're going to work.

And my question specifically is what do you know that we don't know that indicates to you that Phase III is going to work?

(General laughter.)

SECRETARY SHULTZ: This has got to be the last one. They're getting too tough.

(General laughter.)

VOICE: I feel like a member of a Congressional committee.

(General laughter.)

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SECRETARY SHULTZ: Well, first, the history of the free world in trying to attain prosperity without inflation displays a wide variation in the African countries to use wage and price controls or variations of them. And there is a direct correlation between the use of controls and incomes policies and success in controlling inflation.

The more countries have used control, the less successful they have beein in controlling the inflation.

Now, there is a very easy answer to why that is so, and it is that the existence of controls of some sort allows people to let themselves think that you can ignore the fundamentals of basic budget policy and monetary policy and take care of the problem with controls.

And so they do that, and their budgets go out of hand and their money supply goes out of hand, and the inflation problem goes out of hand.

So my first answer to you is we have been conscious of that problem, and we have been trying not to get fooled by the success and apparent success of Phases I and II. And that is why the President is so interested in discipline on the budget, which is hard to enforce but which we think is absolutely necessary.

I know when I was going out to announce the Phase III business to the press, he had told me earlier, he said now, George, when you go out, I want you to emphasize the budget discipline as the most important thing about Phase III. I said yes, sir, and I looked up my notes.

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(General laughter.)

I agree with that, so I didn't have any trouble.

(General laughter.)

And then I got a message the morning when I was over in the White House getting ready and fooling around with Ron Ziegler, and I got a message through from the President that said now, be sure you do that.

(General laughter.)

Then just before I was supposed to go in I got called in the Oval Office and the President said now, I want you to be sure that you emphasize this.

So he has it on his mind, and I think that is the most important thing -- never forget the fundamentals.

Now as far as what we can see in the situation, we expect the economy to continue to rise in 1973. That will generate pretty goods gains in productivity. That is what, played against reasonable wage changes, yields you reasonable labor cost picture. And that's the basic factor that worked for us in 1972. It'll be working for us again in 1973 because we are not at capacity yet. And so we have that factor in our favor.

We also have in our favor the fact that in the past two three year cycles of bargaining, each time one of the major industries has come up for bargaining, whether it's automobiles, Teamsters, steel, can, rubber, electrical, whatever it is, each time those big bargains have come up, the year before the bargaining the average hourly earnings increase in that industry was less than the average for the country as a whole.

So they came into that bargaining having lost ground in real earnings and having lost ground in relative earnings. This time it ain't so. Real earnings have been rising, and the bargaining groups have been experiencing greater than average gains as they come into their bargaining.

That doesn't mean we aren't going to have a tough time, but the underlying situation is different.

Now, as far as the controls are concerned, they are very extensive by any test except the test of Phase I and Phase II. If what we call Phase III had been instituted two years ago, I think everybody would have reacted and said my God, are you trying to put a straitjacket on the economy, because it is a very comprehensive program.

We think our biggest problem is in food prices -- I might say a very un-Galbraithian industry. It isn't the big labor, big industry kind of problem that is the one that everybody has on their mind. It's essentially a Government problem and what kind of Government policies can we pursue toward agriculture.

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Now, there have been some extraordinarily important steps taken and announced as Phase III was announced that have to do with measures that increase the supply of food, and that's the only way that we can get control of food prices. There is no way to suppress them. All you'll get is shortages.

What people want is not a low price and no food. They want a low price and the food there. So we have to increase the supply, and there have been quite a number of things. Some will pay off soon, but most will take a cycle.

I'm so tired of hearing Secretary Butz tell me that it takes 24 months to grow a two-year steer I can hardly stand it.

(General laughter.)

But we're putting a lot of investment in this, and we are continuing what has been an effective program on construction, and a stepped up effort in the health area.

Now, beyond that what has happened is that there are extensive standards in the price field and the wage field, and people are asked to change their prices and wages in accordance with those standards on a self-administering basis.

Everyone wonders is that voluntary or mandatory, and we say well, it's self-administering and you have to do what you think is right. On the other hand, we're going to be watching, and the Internal Revenue Service is going to be watching. And we send them out to inspect, and if somebody exceeds the standards, we will take jurisdiction and impose mandatory standards where violations have occurred. And we will do that.

We are not spoiling for a fight with anybody. We want the thing to work voluntarily. That is the only way it will work. And I think the purpose of the mandatory element, all the way through, is simply to reassure the great bulk of the people who want to cooperate and who are cooperating voluntarily that people who want to chisel around the edges are going to get clipped. And they want to be sure that it's going to be reasonably fair that way, and that continues. But I think it is very important to have made the changeover, because the controls as mandatory controls which you had to get permission to do anything before you could do that were becoming quite counter-productive.

We have an example in the heating oil field -- it's gotten a lot of controversy -- but heating oil prices were frozen as of August 1971, summer season they were at a seasonal position then; and what we have generated by holding them there is unattractive refinery runs and a difficulty in importing the fuel, even after import quotas were taken off. So that's an example of how -- and I'm sure many of you have seen similar ones -- of how the controls can wind up messing you up.

I might say on the oil case we have dispatched the Internal Revenue Service to the various companies that raised their prices, and we undoubtedly will have a hearing; and they will, I'm sure, want to put on the public record their justification for the price increases.

We're not saying anything wrong was done, but it's a sensitive enough area so people want to see that.

But the teeth are there. We believe that they will be helpful in the sense that conscience is a small voice saying somebody may be watching, and there is a real control system there. But behind it is attention to fundamentals, and on our most difficult problem, namely food prices, some pretty strong efforts to change the underlying Government policy so that we'll get more food; and that is really the way to get the prices under control.

So we think that we have a reasonable chance of success in Phase III, and we're determined. And I suppose in all these efforts, the one final thing I would emphasize is, all these efforts cause the businessmen or economists or Government officials to do some arithmetic about productivity and the cost of living and tell the labor world that this is how much you can get in wage increases. They could just [Inaudible].

And the only way it'll take is if you can get people to come in and help you formulate the policy. That is what made Phase II succeed. And unlike Britain, for example, and many other countries, we at least at the moment have very good-hearted labor support in our efforts to make Phase III work.

Of course, so far what we've had is a nice meeting in my office, discussion, and there hasn't been any of the tough stuff yet, and we'll see where we come from that budget.

But I think that we have a lot of things going for us, and with cooperation and with some determination I think it can be successful.

(Applause.)

MODERATOR: Thank you very much, George.

(Whereupon, the recorded proceedings ended at this point.)

Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE WO4-2041

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ATTENTION: FINANCIAL EDITOR

FOR RELEASE 6:30 P.M. January 29, 1973

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 2, 1972 , and the other series to be dated February 1, 1973 , which were invited on January 23, 1973, 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 3, 1973		:	182-day Treasury bills maturing August 2, 1973	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	98.568 a/	5.665%	:	97.038	5.859%
Low	98.558	5.705%	:	97.030	5.875%
Average	98.562	5.689% 1/	:	97.032	5.871% 1/

a/ Excepting 1 tender of $200,000

94% of the amount of 91-day bills bid for at the low price was accepted

57% 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	$ 45,715,000	$ 15,720,000	:	$ 31,350,000	$ 1,300,000
New York	2,886,335,000	1,824,835,000	:	3,635,725,000	1,512,170,000
Philadelphia	12,925,000	12,925,000	:	104,065,000	22,815,000
Cleveland	36,280,000	23,710,000	:	53,180,000	9,225,000
Richmond	14,100,000	14,100,000	:	6,625,000	4,625,000
Atlanta	10,110,000	10,110,000	:	15,145,000	6,895,000
Chicago	309,545,000	193,820,000	:	397,180,000	40,080,000
St. Louis	52,050,000	32,465,000	:	60,190,000	41,670,000
Minneapolis	18,635,000	9,455,000	:	28,335,000	7,015,000
Kansas City	42,460,000	19,480,000	:	33,300,000	11,210,000
Dallas	35,150,000	12,250,000	:	31,110,000	6,010,000
San Francisco	314,160,000	232,480,000	:	248,540,000	137,090,000
TOTALS	$3,777,465,000	$2,401,350,000 b/		$4,644,745,000	$1,800,105,000 c/

b/ Includes $195,015,000 noncompetitive tenders accepted at the average price of 98.562

c/ Includes $ 97,900,000 noncompetitive tenders accepted at the average price of 97.032

1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 5.85 % for the 91-day bills, and 6.13% for the 182-day bills.

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WASHINGTON, D.C. 20220 TELEPHONE W04-2041

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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 WAYS AND MEANS
OF THE HOUSE OF REPRESENTATIVES
ON THE EXTENSION OF THE INTEREST EQUALIZATION TAX
ON TUESDAY, JANUARY 30, 1973, AT 10:00 A.M.

Mr. Chairman, Members of the Committee:

I am grateful for the opportunity to appear before this Committee in support of the Administration's proposal for a two-year extension of the Interest Equalization Tax Act. As Members of the Committee are aware, the IET was enacted in September 1964 as one means of protecting our balance of payments by restraining the outflow of portfolio capital from the United States to the developed countries of the world. Subsequently, on four occasions, the law authorizing the IET has been extended, with some small modifications. Under present legislation, the IET expires on March 31 of this year. I urge you to provide for the extension of this tax for another two years.

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The question of continuing the IET -- as well as the other capital restraint programs -- must be considered in the context of the continuing U. S. balance of payments problems and of the current international monetary reform negotiations. We are in the midst of an interrelated process in which we are seeking to build a new international monetary system as well as strengthen our balance of payments. One of our basic objectives in that effort is to establish a cooperative monetary order in which not only the U. S. but other nations, as well, feel able to conduct their business without substantial reliance on controls. Yet, with a deep deficit in our payments still evident, we cannot move immediately to that objective. Instead, failure to extend the IET during this transitional period would damage both the reform and balance of payments efforts.

The IET covers transactions involving the acquisition of foreign securities by U. S. persons. The tax has plainly discouraged borrowers from other industrialized countries that would wish to raise long-term financing in the U. S. market. It has also diminished purchases of foreign stocks by Americans. Thus, the IET provides significant support to an important segment of our balance of payments position.

The Interest Equalization Tax Act gives the President authority to vary the effective rate of the tax between zero and the equivalent of 1-1/2 percent per annum on purchases by U. S. persons of securities issued by foreigners. Since April 1969, the level of the tax has been set at 3/4 percent. There are no plans to alter this rate at the present time although, of course, we keep the situation under review and would, within the authority contained in the Act, make whatever alterations in the rate circumstances might warrant.

While the IET directly discourages foreign borrowing in U. S. financial markets, it also serves to reinforce programs of mandatory and voluntary restraint in two other broad areas of capital outflows. These companion programs are the Commerce Department's Foreign Direct Investment Program, aimed at containing the balance of payments costs of U. S. direct investment abroad, and the Federal Reserve Board's Voluntary Foreign Credit Restraint Program, which is designed to limit outflows of funds from banks and other financial institutions. These three programs -- the IET, the FDIP and the VFCR -- are complementary and mutually reinforcing. The FDIP and the VFCR are being continued. The extension of the IET is necessary so that the support that it gives to the other two programs may also continue. Without the IET, the effectiveness of the capital outflow restraint policy as a whole, and of the FDIP and VFCR in particular, would be endangered.

As I mentioned earlier, we are engaged in grappling with the major challenges of achieving world monetary reform and of bringing our payments situation into a sustainable equilibrium position.

A necessary first step towards international monetary reform was achieved with the currency realignment and other steps agreed at the Smithsonian in December 1971. In 1972, the negotiating machinery was established in the form of the Committee on Reform of the International Monetary System and Related Issues -- the Committee of Twenty, or C-20 as it is called -- under the aegis of the International Monetary Fund.

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The C-20 negotiations are aimed at a fundamental reform of the system created almost 30 years ago at Bretton Woods. The U. S. seeks an international financial system which is more responsive to the needs of today's world and more attuned to the changed circumstances of international trade and investment. This means a system which encourages prompt and effective adjustment of payments imbalances by all countries -- surplus or deficit, large or small. The system should provide a sufficient choice of adjustment measures so that no country is forced to adopt undesirable controls due to a lack of effective alternatives. U. S. proposals to achieve these goals have been placed on the table and discussions are under way. I have just returned from a meeting of the C-20 Deputies in Paris last week. We are making progress in terms of achieving a common understanding of the issues and means of dealing with them, although many tough problems remain to be solved.

As you know, we are also in a period of discussion and review with respect to international trading barriers and practices, and exchanges of ideas are also under way on new understandings covering flows of capital among nations.

In all of these areas -- monetary reform, trade and investment -- we look forward to a new era of international cooperation and progress. The IET and the other U.S. capital restraint programs are looked upon by our major trading partners as a sign of the earnest intention of the U.S. to redress its balance of payments position and as a contribution to international financial stability in a time of transition and potential stress. Their removal or substantial modification now, at a time when we are engaged in complex negotiations to establish a new framework for international economic affairs, could endanger both those negotiations and the relative monetary stability that has existed since the Smithsonian agreement. We must continue to demonstrate our willingness to cope with our balance of payments problems while at the same time moving ahead with the broader negotiations.

The deficit in the U.S. balance of payments continues. While complete data for 1972 are not yet available, all indications are that the deficit last year was larger than in any year prior to 1971, when the result was affected by large capital outflows in anticipation of exchange rate changes.

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Looking at the components of the U.S. balance of payments in 1972, we find that the trade balance deteriorated by about $4 billion from 1971, partly because of the earlier start of business recovery here than in the other major industrialized countries, and partly because of the initial increase of dollar import costs due to the exchange rate change in December of 1971. The worsening of the trade balance was, however, to a large extent offset by an increase in foreign purchases of U.S. securities and, to a lesser extent, by a rise in foreign direct investment in the U.S.

Recent data remind us that our efforts to improve our trade position and our balance of payments require a period of time to show large results. There is evidence that our relative competitive position in many markets has improved, and continued strong efforts to control inflation -- in line with the President's program -- will bring further improvement. But we must face the fact that our current position does not give us grounds for abolishing the capital restraint programs.

Within the limitations imposed by our balance of payments, we have, at times, taken steps to improve the administration of the capital restraint programs and to ease the compliance problems of business. We do not feel, given the present state of affairs, that further significant relaxations are justified. For these reasons the Administration has presented to the Congress a bill providing simply for a two-year renewal of IET authority. However, in addition to the extension, if the Committee is prepared to consider related amendments consonant with the spirit and intent of the legislation, the Administration has certain more or less technical changes to propose.

Possible Amendments

The Administration supports

-- amending the estate tax provisions of the Internal Revenue Code to provide an exemption from estate tax for certain obligations issued to foreigners which are made subject to the Interest Equalization Tax by an election of the issuer and the interest on which is exempt from the U.S. withholding tax under a provision enacted in 1971.

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-- limiting the IET exemption for less developed country corporations to corporations that have significant economic contact with less developed countries, by eliminating the special rules under which a shipping company can qualify as a less developed country shipping corporation by registering its ships in a less developed country.

In addition, it has been suggested that the Interest Equalization Tax in some cases is a deterrent to direct investment in the United States by foreign corporations since, if they should desire to raise a portion of long-term financing for such investment in the United States, the securities they issue would be subject to the IET. We believe that the existing legislation provides authority to exempt new issues of foreign securities for this purpose by Executive Order. Treasury would be prepared to recommend such an order. However, to assure compliance it would be necessary to amend the statute so that the tax would be imposed on an issuer who did not comply with the conditions of the Executive Order.

Attachment:
Four summary tables on the U.S. balance of payments and transactions in foreign securities.

* * * * * * *

TABLE I: BALANCE OF PAYMENTS SUMMARY TABLE, 1961 - THIRD QUARTER 1972
(millions of dollars)

	1961-1965 Average	1966	1967	1968	1969	1970	1971	Jan.-Sept.* 1972
Merchandise: exports	23,011	29,287	30,638	33,576	36,417	41,963	42,770	47,391
imports	17,578	25,463	26,821	32,964	35,796	-39,799	-45,459	54,355
balance	5,433	3,824	3,817	612	621	2,164	-2,689	-6,964
Military transactions, investment incomes, other services and remittances, net	218	366	43	612	-12	-76	1,888	545
Balance on current account excluding government grants	5,652	4,190	3,858	1,223	610	2,089	-802	-6,419
Government grants & capital, net	-3,042	-3,379	-4,226	-3,866	-3,570	-3,752	-4,423	-3,191
Private long-term capital 1/								
U.S. assets abroad	-3,631	-3,918	-4,429	-4,297	-4,855	-5,753	-6,348	-5,392
Foreign assets in the U.S.	193	1,363	1,517	5,495	4,805	4,355	2,268	4,759
Balance	-3,438	-2,555	-2,912	1,198	-50	-1,398	-4,079	-633
Current and long-term capital accounts, net	-828	-1,744	-3,280	-1,444	-3,011	-3,059	-9,304	-10,243
Short-term non-liquid capital, net	-924	-104	-522	230	-640	-482	-2,386	-611
Errors and omissions	-848	-302	-881	-399	-2,470	-1,174	-11,031	-2,951
Net liquidity balance (excl. SDR allocations)	-2,600	-2,151	-4,683	-1,610	-6,122	-4,718	-22,719	-13,804
Transactions in liquid funds other than those of official reserve agencies, net	849	2,370	1,265	3,251	8,824	-5,988	-7,763	1,461
Official reserve transactions balance (excl. SDR allocations)	-1,751	219	-3,418	1,641	2,702	-10,706	-30,482	-12,343

* Seasonally adjusted, annual rate.
1/ For detail see Table II.
Source: U.S. Department of Commerce, Survey of Current Business, December, 1972 and earlier issues.

January 23, 1973

TABLE II: PRIVATE LONG-TERM CAPITAL, 1961 - THIRD QUARTER 1972
(millions of dollars)
[(inflows of capital to U.S.(+); outflows of U.S. capital (-)]

	1961-1965 Average	1966	1967	1968	1969	1970	1971	Jan.-Sept.* 1972
U.S. assets abroad, net:								
U.S. Direct investments (net)	2,205	-3,661	-3,137	-3,209	-3,254	-4,400	-4,765	-3,331
U.S. Purchases of Foreign securities (net)	-854	-482	-1,266	-1,226	-1,494	-942	-909	-693
Stocks	17	207	-51	-153	-467	-68	-20	292
Bonds	-871	-689	-1,216	-1,073	-1,028	-874	-889	-983
Outstanding U.S. loans and other foreign assets								
Reported by U.S. banks	-438	337	255	358	317	175	-565	-1,156
Reported by U.S. concerns other than banks	-134	-112	-281	-220	-424	-586	-109	-212
Total U.S. assets abroad, net	-3,631	-3,918	-4,429	-4,297	-4,855	-5,753	-6,348	-5,392
Foreign assets in the U.S., net:								
Foreign direct investments (net)	50	86	258	319	832	1,030	-67	332
Foreign purchases of U.S. securities other than Treasury issues (net)	60	909	1,016	4,389	3,112	2,190	2,282	3,599
Stocks	-7	-305	701	2,096	1,565	697	849	1,652
Bonds	67	1,214	315	2,292	1,547	1,493	1,433	1,947
Outstanding foreign loans to the U.S. and other foreign assets in the U.S.								
Reported by U.S. banks	76	188	158	72	160	23	-249	281
Reported by U.S. concerns other than banks	6	180	85	715	701	1,112	303	547
Total foreign assets in the U.S. (net)	193	1,363	1,517	5,495	4,805	4,355	2,269	4,759
Balances:								
Direct investments	-2,154	-3,575	-2,879	-2,890	-2,422	-3,370	-4,832	-2,999
Transactions in securities	-795	427	-250	3,163	1,618	1,248	1,373	2,905
Other long-term claims	-489	593	217	925	754	724	-620	-540
Total private long-term capital	-3,438	-2,555	-2,912	1,198	-50	-1,398	-4,079	-633

Note: Details may not add to totals and quarterly figures may not add to annual figures due to rounding.
Source: U.S. Department of Commerce, Survey of Current Business, December, 1972 and earlier issues.

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TABLE III: PURCHASES BY U.S. RESIDENTS OF FOREIGN SECURITIES
NEWLY ISSUED IN THE UNITED STATES, BY AREA, 1962 - 1972
(millions of dollars)

	1962	1963 First Half*	1963 Second Half*	1964	1965	1966	1967	1968	1969	1970	1971	Jan.-Sept.* 1972
All Areas	1,076	1,000	250	1,063	1,206	1,210	1,619	1,712	1,668	1,456	1,506	1,137
IET Countries, Total	356	343	110	35	147	19	14	45	13	130	3	17
West Europe incl. U.K.	195	219	53	35	95	15	--	42	11	130	--	--
Japan	101	107	57	--	52	4	14	3	--	--	3	--
Other 1/	60	17	--	--	--	--	--	--	3	--	--	17
of which:												
exempt from IET 2/	--	--	110 3/	20	52	10	14	3	--	130	3	--
subject to IET	--	--	--	15	95	9	--	42	14	--	--	17
Other Countries, Total (exempt)	722	656	141	1,027	1,058	1,191	1,605	1,667	1,655	1,326	1,503	1,120
Canada	458	608	85	700	709	922	1,007	957	1,270	775	790	616
Latin America 4/	119	13	23	200	36	68	140	144	32	117	33	54
Other Countries	61	35	33	115	134	121	212	176	189	193	304	176
International Institutions	84	--	--	--	179	80	246	390	164	241	376	274

* Not seasonally adjusted.
1/ Australia, New Zealand, South Africa.
2/ Related to the export, the direct investment, and the Japanese exemptions. The latter for $100 million per year, ran from 1965 to February 1970.
3/ Represents commitments made prior to 7/18/63, the date of inception of the IET.
4/ Includes Inter-American Development Bank issues.

Source: Department of Commerce, Bureau of Economic Analysis; Department of the Treasury, OASIA.

January 23, 1973

TABLE IV: NET TRANSACTIONS IN OUTSTANDING FOREIGN SECURITIES
BY U.S. RESIDENTS BY AREA, 1962 - 1972
(Net U.S. Purchases (-) in Millions of Dollars)

	1962	1963 First Half*	1963 Second Half*	1964	1965	1966	1967	1968	1969	1970	1971	Jan.-Sept.* 1972
All Areas	-96	-151	102	194	225	300	-135	-60	-305	80	117	211
IET Countries, Total	15	-85	85	181	234	222	-111	0	-284	120	145	228
West Europe	-16	-52	54	152	119	149	-96	-33	90	27	16	373
Japan	-23	-25	-4	--	6	10	-5	6	-292	31	-125	-156
Canada 3/	79	7	30	17	147	68	-8	36	-82	53	247	10
Other 1/	-25	-15	5	12	-30	-5	-2	-9	0	9	7	1
Other Countries, Total	-13	-6	10	2	-8	26	-36	-74	-51	-53	-23	-24
Latin America 2/	-25	-3	1	-13	-13	2	-13	-72	-65	-64	-23	-18
Other Countries	12	-3	9	15	5	24	-23	-2	14	11	0	-6
International Institutions	-98	-60	6	11	-3	51	13	16	30	13	-3	7

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

Source: Department of Commerce, Bureau of Economic Analysis.

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FOR RELEASE AT 12 NOON (EST)
MONDAY, JANUARY 29, 1973

PRESS BRIEFING ON THE BUDGET

Department of State Auditorium
Washington, D.C.
Saturday, January 27, 1973
10 a.m.

George P. Shultz
Secretary of the Treasury

jointly with

Caspar W. Weinberger
Director, Office of Management and Budget

accompanied by

Roy Ash
Director Designate, Office of Management and Budget

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MR. LAITIN: If I may have your attention, please. Everything said here is on the record. Films and recordings, everything said here is for release at 12 Noon EST on Monday, January 29, just as the budget itself is.

There are books and charts available to the accredited press, if you don't already have them. If you have questions later in the day or tomorrow, we have a professional staff standing by in my office both this afternoon and tomorrow, starting from one o'clock.

Take these numbers down. At my office it is 395-4854 and 395-4657.

If you have any questions on revenue estimates or any other questions for Treasury, Jim Donley has arranged for Tom Lusk to be available at OV 3-2631. Secretary Shultz, Mr. Weinberger and Roy Ash will be available for questioning later.

In the meantime there will be opening statements and then all three will be available to you.

Now I would like to introduce to you George P. Shu[illegible] the former Director of the Office of Management and Budget.

(Laughter & Applause)

SECRETARY SHULTZ: I might say in that connection, Joe, that in the meetings of the so-called Troika there is always the saying that the Treasury has the revenues, the OMB has the spending and the Council of Economic Advisors has the

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deficit.

As we move from fiscal 1973 to fiscal 1974 the revenues go up we estimate by about $31 billion, whereas the spending goes up by $19 billion and the Council of Economic Advisors is the big loser because the deficit declined by around $12 billion.

I think you can see from the budget documents that you have had that we foresee a continued rise in economic activity and on this basis the revenues are estimated at about $225 billion in the fiscal 73 budget. It will rise to about $256 billion in the fiscal 74 budget, primarily as a reflection of the increased tempo of economic activity and this, combined with the necessary discipline that the President has exercised on outlays, does give us a decline in the deficit which we think is called for at this stage of the pace of economic activity.

I will now turn this over to the Secretary of HEW designate.

(Laughter)

MR. WEINBERGER: Thank you, George. When you have been in this business as long as we all have, you tend to think in terms of the way in which the budget always appeared year after year. You never think of anything singularly.

You always think of it in three's: The preceeding fiscal year, the current fiscal year and the fiscal year to come. All I look at, George, all I can see is fiscal year 1972. When I look in the mirror, I see fiscal 1973, and when I look at Roy Ash I see fiscal 1974.

This is the first time we have had budget directors for each of the three years appearing together on the same platform at the press briefing.

We have a few viewgraphs we thought you would like to see, along with a few comments on them. Then we will take any questions you have.

I have, first of all, two general points that I think should be made. There is a major innovation this year in the dubet -- the presentation of very detailed figures for 1975 as well as 1974.

In some ways the 1974 budget is three budgets in one. First, this budget contains a major set of revisions of the 1973 budget. Next it is a 1974 budget. And, finally, it is a quite detailed version of 1975. The presentation for 1975 is necessary, I think, to show the long-term effect of these reductions that are proposed in the 1973 budget.

The President's instructions were to bring in a budget in which the total outlays for 1973 were no more than $250 billion. This is the amount necessary to stay just as close as we possibly can to the $246 billion budget that had been submitted in 1973 -- and as close as we can to a full-employment balance.

A $250 billion budget would still produce a full employment deficit in the range of $2.5 billion. There was a deficit of full employment in the '72 fiscal year of nearly $4 billion. We felt this was on the verge of being inflation producing, and we want to stay well within it in fiscal 1973.

If we are going to get the reductions of that kind in 1973, we felt it was necessary to do something more than just to look at what the effect of that would be in 1974. It was necessary, therefore, to look even farther ahead. A look at 1975 was also necessary for the purpose of insuring that agency heads and others knew what we felt to be the outer limits of the budget safety for 1975 as well as 1974. This longer view is in keeping with the President's determination that there would be no requirement of a tax increase on the basis of Federal programs and that there would be no more inflation production on the basis of Federal balance spending in this year, in 1974, or in 1975.

Those were the reasons why we felt we should bring in a quite detailed budget for 1975. Naturally, being that far out are tentative. But there is not much doubt as to the totals that we will have and have displayed for 1975.

We feel there is no way they can be substantially exceeded without requirements of additional taxation or the threat of more inflation or both. For that reason, we have projected this budget into 1975.

The other point that I want to make is that I thought I should emphasize the 1975 exercise because it is, so far as I know, the only part of the budget that has not already leaked.

Chart 1 shows the budget totals and the portion of the GNP taken by the Federal Government. The Federal share is just about the same over the years. It is still roughly in the 20 percent area, going down a little bit from '72 to '74.

The important point that is not shown on that chart is when State and local government expenditures are added, the total government share is about 34 percent. Therefore, about a third of the Gross National Product goes to government. This is another reason why the President felt we should be very concerned about the Federal outlays -- to hold down the Federal Government's portion.

Chart 4 in Budget Highlights shows what would have happened if we had not had this restraining exercise. We turned in a budget a year ago of $246 billion. By June, it had climbed to $250 billion. When we made calculations in June covering the bills likely to pass in the Congress and possible increases in uncontrollable spending, we could see a total near $260 billion. Actually, a later review, conducted after the Congress adjourned on October 27th, concluded that the effect of Congressional actions and other factors had produced an unconstrained total of $261 billion. The effect, then, of the President's directions to get us back to $250 billion are seen as having brought us back to where we were in June, but still over the budget that was submitted a year ago this week.

Chart 5 shows the real importance of making that kind of restraining exercise in 1973's outlay. If we had let that $11 billion stay -- the difference between the $250 billion and the $261 billion that would have been spent if we had not tried to restrain 1973 outlays -- it would have grown to $19 billion in 1974 and to $24 billion in 1975. This is without the addition of new programs. It is simply the built-in effects of programs of Presidential proposals now before us. They would have grown that far without the restraining exercise that we have put in for 1973's budget. So there was a real importance in doing this.

There was also an importance of trying to calculate, in the detail we have, what would happen in 1975 had this not occurred.

With the savings included in the $250 billion outlays for 1973, the roughly $269 billion on an actual basis for 1974, and the $288 billion figure that we are recommending for 1975, we will be in a full employment balance in 1974.

As we get much closer to full employment, we will be very close to an actual balance in 1975.

There is not a calculation of actual revenues in 1975, but the growth in receipts that goes with the kind of year we think it is reasonable to anticipate, will bring us out to the point where we believe the 1975 budget can be very close to, if not actual balance, certainly it demonstrates that we will not need new taxes in 1973, 1974, or 1975, and we will not have any inflation-driving forces as a result of Federal spending.

Chart 7 is a comparison of the various full employment budgets, starting back in 1964. As you see, we have had in 1972 and 1973 some comparatively small full employment deficits.

We have felt it necessary to take this restraining action to get back into the situation you see in 1974 and 1975.

Chart 8 gives another indication, another method by which the economy was stimulated, was the reduction of individual income taxes. These taxes have been actually reduced, under the assumptions that we make, by just about $25 billion below what left the 1969 rates would have required. Had the 1969 rates remained, there would be taxation of about $25 billion more on the individual income tax than at present.

We understand there are difficulties with some of these assumptions. Perhaps the GNP would not have been quite the same if the 1969 tax structure had not been changed. But as closely as it can be figured, that is what we believe is the reduction in the individual income tax that has taken place as a result of tax changes made from the 1969 rates and structure.

Chart 9 shows that this is not a net saving because payroll taxes have gone up approximately $20 billion. So, by the end of fiscal '74, there will be a net tax reduction of about $5 billion. Benefits have also gone up very substantially, about $21 billion. That again will be the structure that is in place at the end of 1974.

Chart 10 shows the changing priorities -- outlay dollars on the left and percentages on the right. The outlays for defense were just about level since 1968.

Human resources climbed sharply. In 1974, we will have spent in excess of $125 billion and in 1975, nearly $135 billion.

Human resources will be approximately 47 percent in 1975 and defense under 30 percent of the budget. You can see the exact reversal of priorities and that the gap is actually widening.

Chart 12 shows the level nature of the Defense Department outlays. The increase from '73 to '74 is accounted for almost entirely by pay and price increases, with no increased level of activity.

As a matter of fact, there are about 200,000 fewer men involved in the '74 defense budget than the '73 budget. We can see most dramatically in Charts 13 and 15 that there has been a very substantial decline in activity.

Chart 13 shows the amount of absorption into the economy that has taken place in the numbers of people who were involved in defense and defense-related activities since 1968. It has been a very substantial amount, about three million peop

Those have pretty much been reabsorbed back into a peacetime economy.

Chart 15 shows why the increase in dollars in the defense budget brings no increase in the level of activity. The actual pay and allowances were about $5,500 for the 3.5 million personnel in 1968. Now they are $10,000 each even though we have 2.2 million instead of 3.5 million persons.

Chart 16 shows another way of phrasing it: for a billion dollars you get 100,000 men instead of 219,000 men which you get ten years ago.

Turning to the other side of the increase, you will note there is an increase of about $19 billion in the '74 budget over 1973. That $19 billion is allocated almost entirely on the human resources -- natural resources side; the $4 billion on the defense side which we have seen is related to pay and price increases and actually funds 200,000 fewer people.

On the human resources side, we see an increase in all fields. Chart 18 shows the continuing increase in aid to the elderly. The large increase -- over 80 percent in recent years -- in social security benefits was a major factor in this increase.

Chart 19 shows very sharp increases in outlays for food assistance in '71, '72, '73 years, levelling off a bit in 1974. Still, there has been a very large increase, well over $4 billion in 1974 as opposed to well under $1 billion in 1964. And the principal portion of that jump has taken place since 1970.

On the health care side, you can see in Chart 20 that the federal contribution to health is increasing very substantially, that the private sector is diminishing, and that state and locals are remaining about the same.

Chart 23 indicates that the numbers of patients treated in veterans hospitals and out-patient visits increase sharply. As with most of the programs in the 1974 budget, this program is levelling off somewhat from the rate of increase before.

Nevertheless, there is still a substantial level of activity, particularly in the case of out-patient visits.

College student Aid (Chart 25) demonstrates the changing emphasis that the Administration placed on aiding students who are substantially in need of assistance, as opposed to institutional aid. This indicates there has been a marked increase in that form of assistance in both grants and work study programs. The awards jumped very substantially, both in number and amount.

Chart 26 shows veterans education benefits still going up. They are leveling off a bit but still rising as they have steadily since 1969.

Chart 27 presents civil rights activities. The minority assistance and enforcement programs both show major increases, pretty much continuing the steady progressions since 1970 -- from $1 billion then to over $3 billion now. No leveling off is occurring here.

Chart 29 displays outlays for the reduction of crime, both from the point of view of aid to state and local governments and as federal direct outlays. You see now these are almost evenly distributed; in 1969 the federal share was a great deal smaller.

Again, along with general revenue sharing, there has been a very substantial increase in this special form of assistance.

Chart 31 is on law enforcement, showing the treatment, rehabilitation, education, training and research aspect of the drug problem. Again, outlays are getting well into the three-quarters of a billion dollar range.

Chart 33, on environmental quality programs, shows the effect of the support the Administration has given to this series of programs has grown from well under a billion dollars in 1969 to well over $3 billion.

I think it is important to point out that there has been some discussion about whether the President is using all the authority possible under the so-called Clean Water Act and Pollution Control Act. If he were, that line which has such a very sharp increase would run all the way up to and get just about at the top of the curtain. We didn't have a screen large enough for that purpose. (Laughter)

Chart 38 has two panels. The left side shows a sharp increase in farmers cash receipts. The right side demonstrates our far greater ability to rely now on private market mechanisms, the ability to take down price support very substantially and also to take down the storage and storage costs in the commodity credit owned industry.

These are both major savings that we are able

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to make in 1973, as well as in 1974.

Urban transportation (Chart 40) is another of the areas that continues to show steady growth, with mass transit, particularly, maintaining the very large increase that was first put in in 1972. Airport funding remains about the same with highways showing a little increase. Most of the highway increase is continued payout from prior commitments.

Chart 41 shows why it seems feasible now to call a halt in so many of the Federally subsidized Federal housing programs. The number of units of standard housing has gone up very substantially. The number of people forced to live in substandard housing has gone down dramatically. The rapid increase in Federal subsidized housing and the continued concern about the nature and effectiveness of those programs has led to the conclusion that this was an appropriate or right time to call a temporary halt to some of the things we are doing while we take stock to see whether there is not some better method of attacking the remaining portion of this program.

We should bear in mind we will still be spending well over $3 billion. This is a bit more than last year, just because of the length and clogged nature of the Federal pipeline.

Chart 42, on R&D, shows an increase in two categories and a decrease in one. Civilian R&D goes up very sharply· defense, somewhat more gradually. Space, with the completion of the Apollo Program, continues the decline of the previous year. There is still a major increase in civilian R&D. The next chart (Chart 43) shows one of the principal reasons for this. That is the attempt to improve the energy situation both through the breeder reactor as well as programs designed for clean coal burning and matters of that kind which will be so vital in the next few years.

As Chart 46 shows, Federal civilian employment continues to decline as directed by the President. We are now down from about 2.6 million in 1969 to an estimated 2.4 million in 1974. Therefore, we are having the very substantial reduction in Federal civilian employment. It will actually be about a 4-1/2 percent reduction by June 1974.

Federal grants to State and local governments (Chart 50) are continuing the pace with a new added starter, general revenue sharing in the last year. You will see that there is still a very substantial amount in all fields, particularly human resources, going out to State and local governments. This is on top of general revenue sharing, so we are somewhere in the neighborhood of $45 billion for grants.

Those were the charts that we thought might be of interest.

We can now, I think, take more general questions or questions on the charts.

QUESTION: Mr. Weinberger, how long are you postponing that second quarter of general revenue sharing, the $1.5 billion?

MR. WEINBERGER: I think that is just a matter of a comparatively short time, a few days. Because of the nature of it, the last quarter moves over into the next fiscal year.

SECRETARY SHULTZ: By law I think we must make that payment in the first five days in the quarter following and it would normally come in that space of time.

QUESTION: Mr. Shultz, you have given us the GNP forecast for next year. Could you give us the unemployment and inflation figures that are associated with that?

SECRETARY SHULTZ: We expect that with GNP growth, which is about $115 billion, unemployment would continue the gradual pace of decline that it has had, and reach the neighborhood of about four and a half percent by the end of the year.

QUESTION: We couldn't hear that back here.

SECRETARY SHULTZ: We expect that with the rise of the GNP of about $115 billion, comparing 1972-1973, that unemployment will continue its gradual decline and we expect that it will reach the neighborhood of 4.5 percent by the end of the calendar year.

As you know, the President's objective on the price side is to reach a figure of about 2.5 percent or below by the end of the year. We recognize that that is an ambitious objective, but we think it is attainable and we are working hard to attain that.

The average for the year would probably be somewhat above that.

QUESTION: Mr. Weinberger, the message said in several places that the increase in military outlays is essentially pay.

MR. WEINBERGER: Pay and price.

QUESTION: On page 73 there is a table that seems to indicate that it is half manpower and only half. I wonder if you can explain that discrepancy.

MR. WEINBERGER: On page 73?

QUESTION: Yes.

MR. WEINBERGER: I don't think there is any discrepancy. Two billion dollars is military and civilian pay comprability. About $500 million relates directly to the all volunteer armed forces and proposed retirement increases.

Five hundred million dollars is wage board and retired pay increases that are included in the defense base, and $1.1 billion is the normal price growth that we figure on defense purchases, about 3 percent per annum, or a little less, so that you have in that general total about $4.1 billion.

QUESTION: Excuse me, if I may follow up. This table shows, differently from the way you stated it, that investment, procurement, basically, and construction will be up 1.8.

Are you saying that 1.1 of that 1.8 is price increase?

MR. WEINBERGER: One point one is the normal price growth in investment and other procurement, and the balance is in the other wage increases that we believe will be associated with that.

QUESTION: Secretary Shultz, you promised Congress to provide a tax reform proposal about this time of the year. There does not seem to be any in the budget. Can you explain that?

SECRETARY SHULTZ: There is one tax item in the budget that repeats the President's recommendation of last year to the Ways & Means Committee on aid for private schools. Also included is proposed legislation for revised tax treatment of pensions. Other tax questions are under consideration and we are not prepared to announce them now.

QUESTION: Mr. Shultz, how much do you think that aid to private schools will cost the Treasury?

SECRETARY SHULTZ: It depends on the way in which it is enacted, but I believe we have an estimate of something like $300 million in the budget for fiscal '74 and another $300 million for the pension revision.

QUESTION: Mr. Shultz, could you tell us if there are any plans for post-war aid to Vietnam?

MR. WEINBERGER: I did not hear the question.

QUESTION: It was regarding post-war aid to Vietnam.

SECRETARY SHULTZ: The budget does not include any figures for post-war aid in Southeast Asia. If it is determined to do that, it will be an additional amount, but the President's lines, I think, are quite clear.

Proposed additions are to be measured and their priority determined by the question as to what should be reduced in order to accommodate them. When a proposed addition comes along, the question will not just be the amount or the importance of the proposed addition, it will also be what are we going to give up in order to accommodate it.

As you note, the President has asked for a spending ceiling for 1974 in the exact amount of the budget total that is submitted. He feels, I think quite correctly, that the budget is something that has to be adhered to.

QUESTION: Is that to say, to put it another way, that any aid to Vietnam will be at the expense of domestic programs?

SECRETARY SHULTZ: I don't know what it will be at the expense of.

I think if it is an addition to the budget, it will be at the expense of something because the only other alternative, I think, would be to concede we were going to have an inflationary budget or to concede that we would have to have a tax increase. Both alternatives have been rejected completely.

QUESTION: In that connection, where do you have the greatest opportunity to cut?

SECRETARY SHULTZ: We have already exercised a considerable opportunity to cut, and we haven't given any thought to any additions. We ordinarily like to let the ink get dry on this budget before we think of supplements. It is not quite dry yet.

QUESTION: The President very seriously said the other day there would be American aid to help in the reconstruction of Vietnam.

SECRETARY SHULTZ: We are not saying that there will not be. We are simply saying it will require budget revisions, and those revisions undoubtedly will be proposed if that is considered to be a high enough priority to add to it.

QUESTION: Pretend the ink is dry.

SECRETARY SHULTZ: I think first of all it is clear from Henry Kissinger's briefing to the Congress yesterday that there has been no commitment on that and that there will be consultation with the Congress on that point.

Second, as anyone who has followed the process of aid of that kind as it is unfolding in terms of outlays, it is not the kind of thing that results in a quick build-up of outlays like most other programs of that kind.

It has to get itself organized, programmed, contracted and so forth. Whatever is finally done is not necessarily going to be a very big item in terms of outlays for fiscal 1973 or 1974.

QUESTION. Mr. Shultz, does the lack of any money for family assistance in 1974 or 1975 mean you put that off for at least three years?

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SECRETARY SHULTZ: I think I will turn that over to the Secretary Designate of HEW.

MR. WEINBERGER: I don't think any conclusions of that kind can be drawn. There is no completed action on the proposed legislative program for the Department or for the welfare area at this point.

When there is, that program will be presented. If it requires additional outlays, they will be requested on the basis that they should be of high enough priority to take the place of something else.

QUESTION: In view of the present emphasis on strengthening State and local government, what is the rationale for eliminating Title V of ESEA, which would strengthen State educational departments?

MR. WEINBERGER: I think the rationale is that it does not strengthen state education departments.

I had a little experience with the way that program worked in one of our larger States. It did not work very well. It did not strengthen the State Department of Education really at all. It was utilized for purposes that we had previously removed from the budget of the State Department of Education, and we had a basic feeling that it was simply a Federal grant which really did not carry out the purposes for which it was intended

QUESTION: Secretary Shultz, can you visualize any circumstances in which an increase in the budget totalities or a tax proposal in 1973-1974 would be acceptable to the Administration?

SECRETARY SHULTZ: I think the situation we have is one in which the economy is rising rapidly toward full employment. We know from our experience in the late 1960's that for the outlays to rise above, and in that case dramatically above, full employment revenues was a very heavy contributing factor to the start of inflation, and unwise.

So, we feel we should learn from that experience and make a determined effort to hold the outlays to full employment revenues, particularly as we get toward full employment. The only way to hold it is to set a line and hold it.

QUESTION: Mr. Shultz, I think the question was could you manage ---

QUESTION: What was the response to the question?

SECRETARY SHULTZ: The response to the question is that we feel there is a matter of substance here, a matter of great importance, and the best way to dramatize it and to hold fast to it is to set yourself a number and to hold to that position.

QUESTION: Suppose the economy were to turn down? Is that a circumstance that would change the course or is that the only one?

SECRETARY SHULTZ: In projecting the budget to fiscal 1975, we did that deliberately in order to test out for ourselves and to display for others the fact that the implications of the current pattern of outlays and their rise did not include a tax increase, that it was possible to manage spending in such a way that we would not need a tax increase in 1973, 1974 and 1975.

Now, we have deliberately not, as Director Weinberger pointed out, tried to project actual revenues in fiscal 1975, although it is always tempting to do something like that. We have learned from experience, or I will say I have learned from experience, that it is hard enough to project the economy and revenues by one year, let alone two years.

We have demonstrated the point in fiscal '75 and we want to maintain our ability to exercise judgment and reasonable fiscal policy as we see things unfold.

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MR. WEINBERGER: Let me add a word to that.

Those projections of what would happen if the outlays in 1973 were unrestrained, I think, emphasize the importance, as I understand it, that the President attaches to staying within the limits of 73 and 74. Those projections that show us going up to $312 billion on an unconstrained basis in 1975 do not take into account any new initiatives, any kind of Congressional additions to any of these programs, any kind of veto overrides, or anything of that sort.

They are quite conservative. Knowing the past track record in that general area, it would seem perfectly clear that if we do not make the restraining exercise that the President has directed for 1973 and channel funds into areas more likely to produce results, we will not only have a massive tax increase, but we will have a strongly inflationary fiscal policy.

So there is a real need to stay within these basic totals. The need is that the President feels so strongly that there should not be a tax increase this year, next year, or the year thereafter.

QUESTION: Secretary Shultz, you pointed out that aid to Vietnam would be a slow moving thing and that it would not have any substantial effect on 73 or 74.

Can you say that aid to Vietnam ---

SECRETARY SHULTZ: I don't know how slow moving it will be. My point was that this is something that has to be discussed between the Administration and the parties in Southeast Asia and the Congress, and get it worked out.

If anything is worked out, it takes a while to unfold.

How fast people will be able to move on that, I don't know. I am not involved in the details of that projection.

QUESTION: The question I was going to ask on the basis of that is: Do you feel that aid to Vietnam might mean a tax increase in 1975?

SECRETARY SHULTZ: I wouldn't think so, no.

QUESTION: Secretary Shultz, the budget lays great stress on the need to perform and improve the Congressional appropriating process.

Would you or any of the other two have-beens with you identify a specific improvement that the Administration would be for?

SECRETARY SHULTZ: The budget identifies some.

MR. WEINBERGER: We have been asked to repeat the question. The question was to identify some of the specific Congressional reforms or changes in the budget process that would remove some of the difficulties we have already identified such as very late passage of the bills and, particularly, a failure to take anything in the nature of an overall look at the whole expenditure problem.

For example, we know that in order to stay within the range where we can avoid a tax increase, or more inflation, it was necessary to stay roughly in the range of about a $18 to $19 billion increase between 73 and 74.

Knowing that, we would be a little surprised, I think, if you had deliberately set out to use something in the neighborhood of about $12 billion of that $18 or $19 billion for one particular program, namely a sharp increase in income security.

Nevertheless, that is what the Congress did. They also did several other things. As a result of Congressional actions and increases in uncontrollable outlays, the totals went way up, far above that $18 or $19 billion increase, in fact, about $11 billion more was added to it.

Yet, no one really felt that anyone in the Congress wanted a tax increase, at least no one ran on a program calling for that that we are aware of.

What we really need is a Congressional procedure that enables the Congress to look at the whole budget and have that total in mind when they act on the individual pieces.

We are very hopeful that this joint committee that has just been established will address itself to that problem.

There aremany ways this could be done.

You could have a single budget bill. You could have a requirement for joint hearings so as to eliminate some of the fragmented approaches to it.

You could have a provision that is successfully used in many States under which the Legislative Branch does not consider any other spending measures until the budget is enacted. You could also have a whole series of preliminary considerations before the budget actually is submitted.

So there are a number of different kinds of arrangements. We don't in any sense intend to tell the Congress what they should do or how they should do it. However, I think that no one is satisfied, particularly no one in Congress, who is satisfied with the existing procedures and with the inability of the Congress to have an opportunity to look at the overall picture.

I doubt that there were five people in the Congress who really knew on October 27th that the potential 1973 outlay total was about $261 billion as opposed to $250 billion and that their actions on individual bills caused most of the increase. The reason I say that is that both Houses did pass a spending ceiling even though they were unable to agree on the procedures for staying within it. They both passed the ceiling the amount of $250 billion. More of this is set forth in detail around page 9 of the budget.

QUESTION: Mr. Secretary, what will happen to previously impounded funds? Will they be released sometimes and how will they affect the outlays?

MR. WEINBERGER: The so-called fund impoundment or the withholding of appropriations, has been a practice, of course, that has been followed by every President, since Thomas Jefferson. I am sure it will continue to be followed by every President in the future.

The amount that is actually withheld now is substantially under, on a percentage basis, the amounts that have been withheld on the average in previous years. It is a flowing process.

There are funds withheld for a time, when there is no recipient identified, when there is literally no one to pay the money to. Some funds, such as for the Clean Water Act, are held because to spend them would produce a high level of inflation and particularly on top of the $5 billion that has been released by the President. Some may be released in subsequent months as the conditions arise under which they can be properly and efficiently spent.

Remember, the President is operating under several different statutes which require him to spend money as efficiently as possible: the Anti-Deficiency Act, the debt ceiling of $465 billion, and so on. There can be a whole range of different Congressional intents that are expressed, and, thus far, every President has interpreted his duty and his responsibility as not spending some of the total authorized appropriation.

Usually it varies between six and seven percent. Now it is well under that.

QUESTION: What overall could the President do to try to keep Congress within bounds on spending?

MR. WEINBERGER: He is doing quite a lot right now. His 1974 budget proposes that everyone keep in bounds -- the executive branch and legislative branch -- at the $250 billion figure for 1973 at the $269 billion he has recommended for 1974. He has asked again for a spending ceiling. We have been very pleased at some of the support that has developed for that recommendation.

QUESTION: I am not sure I understand your answer to the next to the last question, when you say some of the so-called impounded funds will be released.

MR. WEINBERGER: Some would be released and some are being held out because there is no one to pay them to.

QUESTION: My question is in the '73 and '74 estimates, you must be making some estimate of how much of the currently impounded funds will be released.

So to make those figures, you must have made that estimate and know where they are.

MR. WEINBERGER: I am sure we do know where they are. I don't quite get the question.

QUESTION: It seems you ought to be able to give a more specific answer to which, if any, of the impounded funds will be released, because you had to know that to make the estimate.

MR. WEINBERGER: We will have in great detail, prior to February 10th, a complete list of the funds impounded, the plans for the release of them, whether they will be reached at the last quarter of the fiscal year or the next quarter of the next fiscal year, and so on. It is quite a large job.

We sent one of these up to Congress in September, I think, and we will have another list that will go up actually next week. You can tell from the products of the reduction and termination programs where some of the items are.

There are others added because they are in a somewhat different category.

You can also see the usual so-called road map on page 32 of the budget that indicates some of the releases to be made in the form of budget authority and unexpended authority from previous years. On top of that, we will have a very detailed, very specific list prior to February 10th, which is the time Congress asked us to send it up.

QUESTION: Mr. Weinberger, you cite over again that the projections do not take into account any new initiative or any new program.

MR. WEINBERGER: New Congressional initiatives. The programs take into effect the Presidential programs now in place and the programs proposed in this budget and the out-year requirements of those programs.

QUESTION: In short, there is no room for any addition to this budget. At the same time, you are leading us to believe that there is some conceptual idea of possible aid to Vietnam.

Now, would it be in the fiscal resources or human resources or defense spending or some of both and you must have some concept of where you would get this additional money.

MR. WEINBERGER: The question is again -- I think this is the third time we have had it this morning -- if we have a Vietnam reconstruction what will we take out.

I think the simple fact of the matter is and the simple answer is that we do not have a proposal.

We are not at this point able to see the dimensions of it, or the amount of outlays that will be required. Nor do we have at this point an indication of when a proposal would come in or whether a proposal would come in.

There has been discussion of it. If it comes in then I would think that as happens with many other situations, and I have in mind particularly the flood emergency of last year, that there will be no hesitancy to try to fit it in. If it comes along and there is a desire that it be fitted in, then we would certainly review the entire budget to see what, at that particular time, is a lower priority than that.

I am unable to state whether it will be defense, human resources or the treasury department. (Laughter)

QUESTION: Mr. Weinberger, how much did the December bombing of North Vietnam increase Federal spending and correspondingly, by how much does today's peace agreement lower Federal spending for FY 73 and '74?

MR. WEINBERGER: The question is how much did the December bombing increase the Defense budget and how much will the peace reduce the budget.

Generally speaking, not generally speaking, but specifically, we have not received from the Defense Department any indications or requests that additional amounts would be required for the activity that has now fortunately ended.

We do have a general idea of the most general nature, not in any way specific, of the kind of range of dollars that the Vietnam war was costing a year ago.

Secretary Laird, I think about a year ago, a year and a half ago, made an estimate of about $8 billion as the incremental cost of the war. I am quite sure that is lower now. It is very difficult to figure, because you have certain divisions and certain ships and certain numbers of men, all of whose cost requirements and pay and so on go on regardless of where they are in place.

I am certain that figure is a lot lower than the $8 billion rough estimate that Secretary Laird gave a year or so ago.

On the other hand, I don't believe it is below the $4.2 billion increase that we mentioned a moment ago that is required -- because of the size of pay and price increases -- to maintain a smaller defense establishment.

So, I don't see any new so-called peace dividend arising as a result of the end of the war. I hope there will be some resources freed, I very much hope that. We certainly will be free from the necessity of constant and major increases, or inability to modernize, that has been the case in the past few years.. But I don't see any new amount because of the enormously increased requirements for pay and allowances.

When you move pay allowances up from $5,500 per man to $10,000 per man, you have done two things: You have, I think, reduced a tremendous amount of the frictions that the draft produced throughout the country. But you also have to have a more expensive defense establishment, even though it is smaller. We have to bear in mind, too, that others in the world are not afflicted with this problem, that their manpower requirements are very much less and they, therefore, have a lot more that they can put into hardware and weapon systems.

QUESTION: Was your budget premised on the war continuing or not, regardless of the ---

MR. WEINBERGER: The 1974 budget was premised on the assumption that the war would be over.

QUESTION: Has anybody figured the cost of the reimbursement to the Treasury of the sale of surplus goods from the war? Maybe this will be a bookkeeping problem, maybe it will save us from future procurement or will we get any cash credit for what we leave in Vietnam?

MR. WEINBERGER: The question is whether or not there will be any gain to the Treasury from the sale of surplus equipment or equipment no longer needed, equipment not left in place and presumably sold abroad or returned home for sale.

There is some of that going on. There have been projects which have returned quite a bit of equipment. A lot of it has been allocated out to minority business groups, small business, and things of that kind. I don't really know if there is a firm estimate of net dollars to the Treasury as a result of some of this. Maybe Assistant Director Dam can give you an estimate.

MR. DAM: I simply point out there has been a substantial reduction in the size of the armed forces already. Whatever receipts we would be having from sales of surplus war goods we have already had.

So, I doubt that there will be an increase.

QUESTION: Mr. Weinberger, on the $17 billion in savings from program terminations and reductions, is the $6.9 billion in special revenue sharing a direct offset against those savings?

MR. WEINBERGER: I am not really able to identify your figures. Did you say $17 billion?

QUESTION: In the budget they list $17 billion.

MR. WEINBERGER: In 1974, $16.8. What is your question?

QUESTION: You are requesting special revenue sharing of $6.9 billion.

MR. WEINBERGER: There isn't any specific offset. We would gain from the program reductions and terminations that are proposed for 1973 a total of $6.5 billion. They go up to just about $17 billion in 1974.

That is the savings that we would make because we would be no longer funding or no longer funding at the same level those programs proposed for reductions and terminations in '73 and '74.

We are also proposing special revenue sharing programs for 1974. There isn't any direct correspondence between the two, but we do eliminate from a total outlay requirement about $17 billion that would otherwise have to be made if we didn't start on the reductions and terminations proposed in the budget.

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QUESTION: But some would have to be restored, would they not?

MR. WEINBERGER: No, these programs that are listed for reductions and terminations proposals are not temporary.

They are made with the idea they would remain in place and that is why we figured the three-year cost effect of them.

QUESTION: On page 40, on the national defense line, the budget authority increase is indicated as rising from $81.7 billion in fiscal 1973 to $91.9 billion in fiscal 1975, a $10 billion rise.

I have two questions. The first is: Is that whole $10 billion rise in budget authority for Defense attributable to pay and price increases and also why are pay and price increases not indicated then for the rest of the budget?

MR. WEINBERGER: Pay and price increases are indicated for the rest of the budget. Certainly, pay increases are. As far as the first part of your question -- as to whether the budget authority increase for national defense between '73 and '75 is entirely associated with pay and price increases -- the increase, I think, is.

The problem that we have is that we do have prior-year commitments that will require pay-outs in the succeeding years quite a long ways down the road.

That 1975 estimate of authority would include the out-year effects or the continuing effects of pay and price increases required by the maintenance of the kind of program we are talking about in 1973. It also necessarily includes the authority required to pay off the government's commitments that will be coming due in those years.

But the increase generally is associated -- both the outlay figure as well as the increase -- in the required figure for those years.

On the next page you will see the outlays climbing from $76 billion to $81 billion to $85 billion. That, of course, includes not only the military activities of the Department of Defense but the other items associated with that functional classification.

QUESTION: If Congress declines to pass any or all of your special revenue sharing proposals, will you continue to spend equivalent amounts under the categorical programs that the special revenue sharing programs will replace?

MR. WEINBERGER: The question was if the Congress refuses to pass the special revenue sharing proposals, will we continue to fund the programs designed to be replaced.

Where these programs are listed as reductions and terminations, the intention is to have those be permanently replaced and not contingent and not temporary. The continuing funding level for those programs will be proposed for reduction or termination, and that proposal would have nothing to do with whether or not the special revenue sharing were actually enacted.

We are pushing the special revenue sharing proposals very hard. We think it is a far better way to go. Also, an important fact is that the programs that make up some of those that we are talking about replacing are programs that we feel do not have programatic values sufficient to warrant a continuation.

QUESTION: I don't think my question was answered. Over and above the fiscal '74 you have this $17 billion in savings, but over and above that or beyond that you are folding in additional funds from these categorical programs into special revenue sharing.

My question is, if those proposals are not passed, will you continue to fund the categorical programs at the same level as called for under the revenue sharing?

MR. WEINBERGER: I think not.

QUESTION: Mr. Weinberger, how much of the price increases of the Defense Department are attributable to cost overruns?

MR. WEINBERGER: We are hopeful that none of them will be. We have new procedures in the Defense Department that are designed to try to overcome and prevent that. A lot of the ones that are appearing in the papers are as a result of contracts that were let several years ago when those new procedures were not in effect.

QUESTION: That is right. How much would you say of that is attributable to bad management in the past to the Defense Department?

MR. WEINBERGER: We are not prepared to quantify the management of previous Administrations at this time, but we hope ---

QUESTION: I am not talking about previous Administrations. (Laughter)

MR. WEINBERGER: We hope that the new procedures, regardless of the precise time at which they were entered into, will prevent cost overruns in the future.

QUESTION: Mr. Weinberger, to follow the question before last, if the Congress does not approve special revenue sharing, is it the Administration's intention to discontinue funding of aid to elementary and secondary education, for example?

MR. WEINBERGER: The proposal of the Administration is that there should be instituted a revenue sharing bill that will enable the states and local governments and school districts to make their own decisions as to the best way to handle educational matters, rather than being forced into decisions required by the Federal Government.

I know of no weakening on the part of the Administration with respect to its support of that special revenue sharing proposal. I would certainly think that it will be pushed as hard as possible because there is a feeling that it is a much better way to get better education in the difficult and disadvantaged areas.

My feeling is that what we would do would be to push as hard as we could with that special revenue sharing proposal, and base it on the assumption that is stated that it is a substitute for those programs.

I certainly don't have any way of speculating what the Administration's position will be if the Congress should not wish to pass it.

of no feeling at this time that there is any lack of resolve to push for that program. I think there is general acceptance of the idea that the offering of a comparatively easy alternative to the passage of a bill is not only no way to get a bill passed but is also an indication of a feeling that the existing programs can perfectly well continue.

We feel, as we have indicated by the proposal, that they should be substituted for by a special revenue sharing proposal.

QUESTION: Mr. Weinberger, does the Administration intend to strive for annual reductions in the total civilian employment in the Executive Branch, and do you have a target figure for fiscal '78 or '79?

MR. WEINBERGER: No, we don't have any target figure in mind. I think that the continuation of that effort would certainly be one that we would want to make if it were determined that the tasks, the necessary tasks of the Federal Government could be conducted with fewer people.

So far we have not had too much trouble making that determination on the basis of the past few fiscal years. The reduction has been gradual, but it has been steady as indicated on the chart we showed a moment ago (Chart 46) and I would think that there would be a continued desire to try to identify areas where the necessary tasks could be done with fewer people. Maybe Roy would like to say something about plans for that.

than doing them with Federal Government employees themselves.

QUESTION: Secretary Shultz, can we draw any implications from the absence of any reference to the President's plan for property tax relief?

SECRETARY SHULTZ: I don't think you can draw any implication about the tax program from the absence of a description in here. The President has not made his decisions on that. Until he does, I really do not have an ability to comment, beyond saying this: We did have an extensive discussion of the property tax question in the Advisory Committee on Intergovernmental Relations. At that meeting, on behalf of the President, I did put forward the notion of a Federal circuit breaker having to do with the property taxes of the elderly.

We also expressed a willingness to support grants to the States who were developing their own circuit breaker plan.

It was a startling meeting in many ways in that the Mayors and Governors who spoke at the meeting and the vote at the meeting was along the line of the property tax has been something State and local governments have worried about and thank you very much, we would just as soon leave it that way.

The President asked the Advisory Committee for advice on that among a range of subjects and the advice was

MR. ASH: One of the efforts that, as you can see, has been given special attention in recent years, is that of personnel levels and opportunities to reduce those levels. One of the efforts that we will continue, and give even more attention to, is employment requirements throughout the Federal Government.

Two or three different aspects of that were, for the first time, discussed to some extent yesterday. It is not just the matter of levels, it is what those people are doing and where they are doing them in the government.

In addition to reducing numbers, there is a substantial activity under way to decentralize out of the White House, the President's office, the President's staff, those kinds of functions, those kinds of jobs that can better be performed in the agencies.

The purpose, therefore, is not to reduce just the numbers of people, but at the same time, to make the total of the government more effective by the placement of those people This would be done, particularly, by the placement of those people farther and farther away from the central core of government, first farther out in the operating agencies of the Federal Government, but, secondly, through revenue sharing, to place many of the governmental functions in the hands of the States and the cities rather

QUESTION: Mr. Secretary, I would like to follow that question and ask: In charts 4 and 5 you have the effect of the restraining of outlays forecast for 1975. Do you have any forecasts on what the inflationary levels would be without this restraint?

SECRETARY SHULTZ: We do not have a forecast of that. We think that those levels are inconceivable and we must hold the budget at or close to the levels that the President has put forward.

I must say in all of the discussion yesterday with the Congressional leadership nobody challenged that, the desirability of that.

QUESTION: The proposal is that if the special revenue sharing is not passed we do not fund the programs. I wonder if that implies the condition you do not fund the program even if Congress continues to fund them, and passes funds to do so.

MR. WEINBERGER: There are all kinds of problems involved in the President's use of the Presidential prerogative of withholding expenditures, withholding appropriated funds.

I would assume that he would certainly face those problems if that unpleasant situation ever arose. At the moment we are making a serious proposal based on programmatic grounds and not only budgetary grounds.

We are staying with it because it is a solid proposal.

There is no suggestion whatever that we would retreat from it. Nor is there any suggestion at this point about what the Congress might do. There was a lot of feeling in the Congress against general revenue sharing and general revenue sharing passed.

There is a lot of feeling in Washington that categorical programs in which the federal imperative is exercised are the best way to go.

The feeling is not shared by a large part of the country. I don't think there is any reason whatever to predict at this time that the Congress is going to reject out of hand these special revenue sharing proposals which are meant as a substitute for a lot of existing programs.

QUESTION: On page 13, again relating to revenue sharing, the President cites 70 outmoded programs to be replaced.

Is their annual cost roughly in line of that $6.9 million and the other question I want to get in is why were the revenue sharing plans for rural development and transportation dropped?

MR. WEINBERGER: Well, the first question is: Is the $6.9 billion for the special revenue sharing generally in line with the 70 outmoded programs.

I think the answer is yes. There is one area where a program is proposed for dropping and not to be folded negative.

Now the President has not made any final decision, but certainly that is an important piece of information.

QUESTION: If the Congress does not pass special revenue sharing programs and wants to continue to do some of these activities by the categorical programs, are you saying that it is possible that the Administration in that case simply does not fund those programs?

MR. WEINBERGER: That is the proposal, yes.

QUESTION: There would be nothing in those areas?

MR. WEINBERGER: That is the proposal. Yes.

QUESTION: Mr. Secretary, when you were asked before about the price-inflation assumptions underlying the budget, you answered by pointing to the President's goal for Phase 3 and not really the price assumption under the budget.

First, could you tell us what the price assumption is and secondly, is there a goal on unemployment as ambitious as the price goal, as you have described?

SECRETARY SHULTZ: As I said, the question was about price and unemployment goals as set forward or assumed in the budget.

The answer is that we have a goal of 2.5 percent or below on inflation by the end of the year. We recognize that is ambitious and we recognize we are not there now.

We are probably a little above the President's two or three percent goal, although by some statistics you could say we are well within the range.

So, the price assumptions are that we will average somewhere in the neighborhood of three percent, perhaps a little less, and be at a 2-1/2 percent level by the end of the year.

On the unemployment side, we expect to see employment to continue to grow and unemployment to continue to decline and to reach the neighborhood of 4.5 percent by the end of the year. That is the expectation that is built into this.

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MR. WEINBERGER: Well, the first question is: Is the $6.9 billion for the special revenue sharing generally in line with the 70 outmoded programs.

I think the answer is yes. There is one area where a program is proposed for dropping and not to be folded into the special revenue sharing. That is the termination of the emergency employment program.

Accordingly, the manpower special revenue sharing comes out a little less than the total of the existing programs. I don't have any very specific reason as to why the other special revenue sharing programs that you mentioned were dropped.

I think there is a basic feeling that the proposals as set forth in the budget are a good way to go now and there undoubtedly were a number of different factors considered by the operating agencies in those areas.

These are the current proposals and I think that the Administration plans to stay with these. I don't at this point have any very specific bases for identifying any of the reasons for discontinuing those two.

If any of my colleagues do behind me, I would be delighted to have them mentioned at this point.

MR. MORRELL: I might add that I think you will find in the budget a statement that the Rural Development Act, which was enacted by the Congress last year, will be implemented in a fashion consistent with special revenue sharing.

In addition, the transportation matter was debated at length in the Congress in connection with the highway bill and the Administration has indicated that it does expect to renew its request for legislation that permits flexibility for urban areas in the choice of the use of funds for the mode of transportation.

QUESTION: TO follow this very excellent question, would you say it is fair to characterize the 70 cuts of those programs absolutely junked as being a folding of the Great Society into federal revenue sharing?

MR. WEINBERGER: No. I wouldn't. I would say the 70 programs we feel have been disappointing or achieved less than anticipated programmatic results. We feel that it is better than to have the federal government insist on the application form and the apparatus necessary to review the grants and force the states frequently-- because of the myth of free federal money -- to raise matching funds for projects that may be of lower priority to them.

With 70 different programs there is not any one reason that can fit all of them.

In some cases they were demonstration programs. There is a time occasionally when a demonstration program must conclude that it has demonstrated one way or the other and we should stop it.

There is a different rationale for almost all of these. We don't have any such broad generalization as that.

QUESTION: Mr. Weinberger, would you compare the 1974 figures with 1973 with respect to the non-elderly poor.

MR. WEINBERGER: Yes, I think we have some data on that.

QUESTION: What was the question?

MR. WEINBERGER: The question was would we compare the provisions in 1974 for the non-elderly poor with those in 1973, is that correct?

QUESTION: Yes.

MR. WEINBERGER: In most situations, there has been either a level continuation of these programs or an increase. In actual totals -- and I have a little difficulty sorting out the elderly and non-elderly because we don't compute it that way -- Federal outlays to the poor in 1974 will exceed $30 billion. This is $2 billion above the 1972 level.

There is an increase or a level funding or based on increased numbers of participants in almost every program. I think that you would find if you went through the whole list that there were none that declined. Some increased more spectacularly than others, but in general, with figures of that kind, you would have a very substantial continuation.

But we don't have a precise breakdown between elderly and non-elderly -- maybe we do.

Sam Cohen calls our attention to page 166 of the special analysis. It has figures on benefits to annuitants, other aged, disabled, mothers and children, temporarily unemployed and other transitional low-income persons.

QUESTION: I don't understand how you can see there has been no decreasing when we see a moratorium on housing.

MR. WEINBERGER: The simpliest thing in the world. The moratorium on housing will not be reflected in budget outlays for 2-1/2 years. The whole problem with some of these Federally subsidized housing programs is that they do not deliver benefits to the intended groups. Let me add one personal note, if I might. Let me say it this way: The most nauseating cartoon I saw this year was of some very obvious poor people sitting out in the snow. A label under the cartoon indicated that this was the result of the termination of the Federally subsidized housing program.

If anyone would take the trouble to look through the facts of these matters, he would see that one of the reasons we decided to terminate them temporarily until we can come up with a new method is that they don't benefit the poor. They are targeted toward upper and middle income people and developers, and they have done very well in those categories.

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The other thing is you do not have any outlay effect in these programs, sadly, for about two, 2-1/2 years, so we will be spending the same old $3.2 billion for these programs for about two years. So there is no downward effect on the poor, aged or otherwise as a result of that decision.

QUESTION: Mr Weinberger, given the length of the pipeline, still on housing, given the length of the clogged pipeline that you mentioned earlier and given what you just said that the freeze, the moratorium, will not be expected for about 2-1/2 years, what will be the income in 2-1/2 years when current commitments are exhausted?

MR. WEINBERGER: We don't plan to wait 2-1/2 years to do something about this. There is a very definite plan to try to develop something far better than the system which has produced the great yawning, empty barracks in the great parts of the cities that have increased the crime rate so substantially and have not satisfied the basic needs.

Secretary-Designate Lynn in his confirmation testimony made it clear that there is a strong desire to develop a better and more significantly set of programs, targeted to the people who most need them, than what we have now.

The fact that there is a decision to stop something we are doing now seems to me to be entirely commendable because it is not a program that is working very well.

Where there are results, we have identified those results, and we hope to include any portions of the programs that help to produce those results in future programs. The termination of programs that clearly are not working, for a long enough to try to develop something that would work better, certainly should not be considered or interpreted as any loss of commitment or any lack of commitment to the people who are most in need of good housing.

This again is another illustration of the point that I made, I am sure, at repeated length to many of you individually. There is still this basic assumption that if there is anything wrong with the country you solve it by more money, and if you propose less money one year, you demonstrate a callousness. I do not agree with this assumption.

QUESTION: Did I understand you a moment ago to say that if special revenue sharing does not pass, that such programs as Federal aid to education will be terminated?

MR. WEINBERGER: I don't see how you could have misunderstood. We will try it for the fourth time. You try it. (Laughter.)

SECRETARY SHULTZ: This is the kind of question on which the Director of the Budget has to weave and bob, and we have obviously done that. That is all we will do. (Laughter and applause.)

MR. WEINBERGER: Special revenue sharing programs are very good programs. We are strongly committed to them. We have no reason to suppose that Congress will be so unwilling to recognize the value of thesr programs that they will not pass them.

QUESTION: Is there any limit now in law, in your view,as to the extent to which Congress can impound or not spend? Suppose the categorical programs are passed by Congress again over the veto. Is there still nothing, or is the anti-deficiency law enough?

MR. WEINBERGER: Did I understand you correctly to say is there any limit to which Congress can impound?

QUESTION: I am sorry, the Administration.

MR. WEINBERGER: There are several lawsuits pending involving this matter, involving Missouri and Hawaii funds that were withheld by the previous President. I think that it is always a little difficult, at least the Department of Justice thinks it is, for us to comment too blithely on various legal theories while litigation is pending.

Speaking personally, I take great comfort in the fact that the Presidency as an institution has exercised this prerogative for close to 200 years and that it has been complained about.

There have been grumblings. There have been complaints by some of the people who later had to exercise that power. I never thought that it was possible for the Government to operate under the system we have without the exercise of this kind of authority.

The details of it, how it is done, to what extent it is done, under what circumstances it is done, are matters that are under litigation. Certainly, this President has not exercised this power in any greater amount or any greater degree than any of his prececessors.

Frequently, it depends on where you strike the balance. It is a process of flow and it is a matter of funds coming from Congress and not having recipients sometimes for a number of reasons. The President has been well under the total percentage of withholdings and impoundments that would be required to be made or have been made in previous times.

THE PRESS: Thank you.

(Whereupon, at 11:45 a.m., the briefing was concluded.)

Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE WO4-2041

FOR IMMEDIATE RELEASE January 30, 1973

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 8, 1973, in the amount of $ 4,201,545,000, as follows:

91-day bills (to maturity date) to be issued February 8, 1973, in the amount of $ 2,400,000,000, or thereabouts, representing an additional amount of bills dated November 9, 1972, and to mature May 10, 1973 (CUSIP No. 912793 QT6) originally issued in the amount of $ 1,901,370,000, the additional and original bills to be freely interchangeable.

182-day bills, for $ 1,800,000,000, or thereabouts, to be dated February 8, 1973, and to mature August 9, 1973 (CUSIP No. 912793 RP3).

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, February 5, 1973. 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

(OVER)

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 8, 1973, in cash or other immediately available funds or in a like face amount of Treasury bills maturing February 8, 1973. 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.

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

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FOR IMMEDIATE RELEASE January 30, 1973

TENTATIVE DISCONTINUANCE ON ELECTRONIC CERAMIC PACKAGES AND PARTS THEREOF FROM JAPAN UNDER THE ANTIDUMPING ACT

The Treasury Department announced today that it will publish a notice announcing a tentative discontinuance of the antidumping investigation with respect to electronic ceramic packages and parts thereof from Japan. These packages provide a sealed housing for integrated circuit chips and an electrical connection between these chips and the associated circuitry of various electronic products including calculators and computers. The notice will appear in the Federal Register of January 31, 1973.

The investigation revealed some instances where exporter's sales price was lower than the adjusted home market price of such or similar merchandise. However, these were determined to be minimal in terms of the volume of export sales involved. Formal assurances were received from the sole manufacturer investigated that it would make no future sales of electronic ceramic packages and parts thereof for exportation to the United States at less than fair value. The notice of tentative discontinuance of the investigation is based on these assurances and the facts just described.

During calendar year 1972, imports of electronic ceramic packages and parts thereof from Japan were valued at approximately $4 million.

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

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FOR IMMEDIATE RELEASE January 31, 1973

TENTATIVE NEGATIVE DECISION ON
SLIDE FASTENERS AND PARTS THEREOF
FROM JAPAN

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 slide fasteners and parts thereof from Japan. Slide fasteners and parts thereof are commonly known as zippers and are primarily used in wearing apparel.

The notice will be published in the Federal Register of February 1, 1973.

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

Appraisement of this merchandise has not been withheld.

During the period of January through June 1972, imports of slide fasteners and parts thereof from Japan were valued at approximately $10 million.

# # #

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

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January 31, 1973

MEMORANDUM FOR CORRESPONDENTS:

The attached notice, to be published in the Federal Register, describes the proper procedures for financial institutions to follow in obtaining taxpayer identification numbers in accordance with the regulations implementing Public Law 91-508, the Financial Recordkeeping and Currency and Foreign Transactions Reporting Act of 1970.

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NOTICE

DEPARTMENT OF THE TREASURY

MONETARY OFFICES

FINANCIAL RECORDKEEPING AND REPORTING OF CURRENCY AND FOREIGN TRANSACTIONS

INSTRUCTIONS RELATING TO TAXPAYER IDENTIFICATION NUMBERS UNDER 31 CFR, PART 103

On June 30, 1972, instructions were issued on this subject and published in the Federal Register (37 F.R. 13279 (1972)). These procedures have been revised in accordance with amendments to the regulations issued on December 8, 1972, and published in the Federal Register (37 F.R. 26517 (1972)).

With respect to each deposit or share account opened after June 30, 1972, by a person residing or doing business in the United States or a citizen of the United States, each bank, savings and loan association, building and loan association, credit union, or broker or dealer in securities must, within forty-five days from the date the account is opened, secure and maintain a record of the taxpayer identification number of the person maintaining the account.

For individuals, the taxpayer identification number is his social security number. For corporations, partnerships, and other entities it is the IRS employer identification number. If an account is opened in more than one individual's name, the financial institution is required to secure and maintain the social security number of at least one individual having a financial interest in that account.

In determining the proper identification number to be obtained for accounts opened in more than one name, the financial institution should follow the regulations and rulings issued by the Internal Revenue Service under Section 6109 of the Internal Revenue Code. The following guidelines have been issued by IRS under that section:

FOR THIS TYPE OF ACCOUNT:	OBTAIN SOCIAL SECURITY NUMBER OF:
1. An individual's account	The individual
2. Husband and Wife (joint account)	The husband
3. Adult and minor (joint account)	The adult
4. Two or more individuals (joint account)	Any one of the individuals
5. Account in the name of guardian or committee for a designated ward, minor, or incompetent person	The ward, minor or incompetent person
6. Custodian account of a minor (Uniform Gifts to Minor Acts)	The minor
7. So-called trust account that is not a legal or valid trust under State law	The real owner

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FOR THIS TYPE OF ACCOUNT	OBTAIN EMPLOYERS IDENTIFICATION NUMBER OF:
8. A valid trust, estate, or pension trust	Legal entity. Do not furnish the identifying number of the administrator, executor, or trustee unless the legal entity itself is not designated in the account title.
9. Corporate account	The corporation
10. Religious, charitable, or educational organizational account	The organization
11. Proprietorship account held in the trade name of the business	The proprietorship
12. Partnership account held in the name of the business	The partnership
13. Association, club, or other tax-exempt organization	The organization
14. A broker or registered nominee	The broker or nominee

With respect to accounts opened for trusts, charitable organizations, clubs and similar entities the financial institution should secure the employer identification number of the entity. An employer identification number should be obtained for this purpose even though an organization might not otherwise require one.

A taxpayer identification number need not be secured in the following instances: (i) accounts for public funds opened by agencies and instrumentalities of Federal, State, local or foreign governments, (ii) accounts for aliens who are (a) ambassadors, ministers, career diplomatic or consular officers, or (b) naval, military or other attaches of foreign embassies and legations, and for the members of their immediate families, (iii) accounts for aliens who are accredited representatives to international organizations entitled to enjoy privileges, exemptions and immunities as an international organization under the International Organizations Immunities Act of December 29, 1945 (22 U.S.C. Sec. 288), and for the members of their immediate families [a list of such organizations appears in Title 19, Section 148.87 (formerly Section 10.30a), Code of Federal Regulations], (iv) aliens temporarily residing in the United States for a period not to exceed 180 days, (v) aliens not engaged in a trade or business in the United States who are attending a recognized college or university or any training program supervised or conducted by any agency of the Federal Government, (vi) unincorporated subordinate units of a tax exempt central organization which are covered by a group exemption letter, (vii) interest bearing accounts maintained by a person under 18 years of age opened as part of a school thrift savings program, provided the annual interest does not exceed $10, and (viii) Christmas Club, vacation club and similar installment savings programs provided the annual interest does not exceed $10. In instances (vii) and (viii), the bank shall, within fifteen days following the end of any calendar year in which the interest accrued in that year exceeds $10, use its best efforts to secure and maintain the appropriate taxpayer identification number or application form therefor.

If the customer does not have a social security number or is unaware of his number, he can authorize the Social Security Administration to furnish his identification number to the financial institution. This authorization may be printed or stamped on the back of Form SS-5 (Application for Social Security Number), in the space immediately above the legend, "For Bureau of Data Processing and Accounts Use". The authorization must contain the following language:

Please furnish my SSN to:

NAME ______________________________

ADDRESS ______________________________

SIGNATURE ______________________________

The customer should complete Form SS-5 and sign the statement on the back of the form. The financial institution should mail the completed form to the Social Security Administration in the pre-addressed envelope provided and retain a copy (duplicate or photocopy) of the application until the number is received.

The Social Security Administration does not require the Form SS-5 or the authorization statement to be signed by a parent or guardian even though the customer is under eighteen years of age.

A similar procedure may be used to obtain employer identification numbers. Upon proper authorization by the applicant on the back of Part 2 on the first page of Form SS-4 (Application for Employer Identification Number), the IRS will furnish the employer identification number to both the applicant and the financial institution.

Financial institutions may obtain supplies of Form SS-5 and pre-addressed envelopes from their nearest Social Security Office, and supplies of Form SS-4 and pre-addressed envelopes from any Internal Revenue Service Center or District Office.

In the event that a financial institution has been unable to secure the identification required herein with respect to an account within the forty-five day period specified, it shall nevertheless not be deemed to be in violation of this requirement if (i) it has made a reasonable effort to secure such identification, and (ii) it maintains a list containing the names, addresses, and account numbers of those persons from whom it has been unable to secure such identification, and makes the names, addresses, and account numbers of those persons available to the Secretary as directed by him.

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A reasonable effort to obtain a taxpayer identification number should include the mailing of a written request. The request should inform the customer that the bank is required to maintain, for the use of the Department of the Treasury, a list of customers who have failed to supply the bank with a TIN within the forty-five day period.

The forty-five day period provided for shall be extended where the customer has applied for an employer identification number or social security number on Form SS-4 or SS-5 until such time as the customer has had a reasonable opportunity to secure the number and furnish it to the institution.

Date: JAN 30 1973

Edward L. Morgan
Assistant Secretary for
Enforcement, Tariff and
Trade Affairs, and
Operations

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

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FOR IMMEDIATE RELEASE January 31, 1973

JOHN C. RICHARDSON RESIGNS AS
TAX LEGISLATIVE COUNSEL

Treasury Secretary George P. Shultz has accepted, "with deepest regret," the resignation of John C. Richardson, Tax Legislative Counsel. Mr. Richardson will join the New York law firm of Brown, Wood, Fuller, Caldwell & Ivey, effective in February, 1973.

Mr. Richardson has been with the Treasury Department since December, 1970, when he accepted appointment as Deputy Tax Legislative Counsel, and succeeded John E. Chapoton as Tax Legislative Counsel in August, 1972. Mr. Richardson has been responsible for the development of many of the regulations under the Tax Reform Act of 1969, and played an important role in shaping the Revenue Act of 1971.

A native of New Orleans, Louisiana, and a graduate of Tulane University in 1954, Mr. Richardson also graduated cum laude from Harvard Law School in 1960. Before coming to Treasury, he was tax counsel for AVCO Corporation of Greenwich, Connecticut. He previously was General Counsel of Continental Investment Corporation, Boston, Massachusetts; Vice President (Legal) of Hoover Worldwide Corporation, New York, New York; and with Holland & Hart, attorneys, Denver Colorado.

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

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FOR IMMEDIATE RELEASE January 31, 1973

TREASURY ANNOUNCES FEBRUARY FINANCING PLANS

The Treasury is offering holders of the $6.8 billion of Treasury notes maturing February 15, 1973, the right to exchange their holdings for 3-1/2-year 6-1/2% Treasury notes. The public holds about $4.8 billion and Government accounts and Federal Reserve Banks hold about $2.0 billion of the notes eligible for exchange.

The Treasury also announced that it will auction $1.0 billion, or thereabouts, of 6-3/4-year 6-5/8% Treasury notes. An additional amount of these notes may be allotted to Government accounts and Federal Reserve Banks in exchange for maturing notes held by them.

EXCHANGE OFFERING

The notes being offered in exchange are 6-1/2% Treasury Notes of Series G-1976, dated February 15, 1973, due August 15, 1976 (CUSIP NO. 912827 CWO), at a price of 99.70 (to yield about 6.60%). Interest will be payable on August 15, 1973, and thereafter on February 15 and August 15.

Subscribers will receive a cash payment for the difference between the par value of the maturing notes and the offering price of the new notes.

Subscription books will be open until 5:00 p.m., local time, Wednesday, February 7, 1973. 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, Securities Division, 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 6, 1973, will be deemed to be timely. Cash subscriptions will not be accepted. The payment and delivery date for the notes will be February 15.

AUCTION

The notes to be auctioned will be 6-5/8% Treasury Notes of Series B-1979, dated February 15, 1973, due November 15, 1979 (CUSIP NO. 912827 CX8), with interest payable on May 15 and November 15, 1973, and thereafter on May 15 and November 15.

Tenders will be received up to 1:30 p.m., Eastern Standard time, Wednesday, February 7, 1973. Tenders will be received at any Federal Reserve Bank or Branch and at the Office of the Treasurer of the United States, Securities Division, Washington, D. C. 20220. Noncompetitive tenders will be considered timely received if they are mailed to any such agency under a postmark no later than February 6.

Each tender must be in the amount of $1,000 or a multiple thereof, and must state the price offered, if it is a competitive tender, or the term "noncompetitive", if it is a noncompetitive tender. The price on competitive tenders must be expressed on the basis of 100, with two decimals, e.g., 100.00. Tenders at a price less than 98.51 will not be accepted. Fractions may not be used. The notation "TENDER FOR TREASURY NOTES" should be printed at the bottom of envelopes in which tenders are submitted.

Public announcement will be made of the amount and price range of accepted tenders. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations noncompetitive tenders for $400,000 or less will be accepted in full at the average price (in two decimals) of accepted competitive tenders. The price may be 100.00, or more or less than 100.00.

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Commercial banks, which for this purpose are defined as banks accepting demand deposits, may submit tenders for account of customers provided the names of the customers are set forth in such tenders. Others than commercial banks will not be permitted to submit tenders except for their own account.

Tenders will be received without deposit from commercial and other banks for their own account, Federally-insured savings and loan associations, States, political subdivisions or instrumentalities thereof, public pension and retirement and other public funds, international organizations in which the United States holds membership, foreign central banks and foreign States, dealers who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions with respect to Government securities and borrowings thereon, Federal Reserve Banks, and Government accounts. Tenders from others must be accompanied by payment of 5 percent of the face amount of securities applied for.

Payment for accepted tenders must be completed on or before Thursday, February 15, 1973, at the Federal Reserve Bank or Branch or at the Office of the Treasurer of the United States in cash, 6-1/2% Treasury Notes of Series C-1973 or 4-7/8% Treasury Notes of Series D-1973, which will be accepted at par, or other funds immediately available to the Treasury by that date. Where full payment is not completed in funds available by the payment date, the allotment will be canceled and the deposit with the tender up to 5 percent of the amount of notes allotted will be subject to forfeiture to the United States.

The Treasury will construe as timely payment any check drawn to the order of the Federal Reserve Bank or the Treasurer of the United States that is received at such bank or office by Tuesday, February 13, 1973, provided the check is drawn on a bank in the Federal Reserve District of the bank or office to which the tender is submitted. Other checks will constitute payment only if they are fully and finally collected by the payment date Thursday, February 15, 1973. Checks not so collected will subject the investor's deposit to forfeiture as set forth in the preceding paragraph. A check payable other than at a Federal Reserve Bank received on the payment date will not constitute immediately available funds on that date.

Commercial banks are prohibited from making unsecured loans, or loans collateralized in whole or in part by the notes bid for, to cover the deposits required to be paid when tenders are entered, and they will be required to make the usual certification to that effect. Other lenders are requested to refrain from making such loans.

All bidders are required to agree not to purchase or to sell, or to make any agreements with respect to the purchase or sale or other disposition of the notes bid for under this offering at a specific rate or price, until after 1:30 p.m., Eastern Standard time, Wednesday, February 7, 1973.

EXCHANGE AND AUCTION

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

Coupons dated February 15, 1973, on notes tendered in exchange or payment should be detached and cashed when due. The February 15, 1973, interest due on registered notes will be paid by issue of interest checks in regular course to holders of record on January 15, 1973, the date the transfer books closed.

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

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FOR IMMEDIATE RELEASE FEBRUARY 1, 1973

TREASURY ANNOUNCES SIMULTANEOUS
WITHHOLDING OF APPRAISEMENT AND SALES AT LESS THAN FAIR VALUE
ON STAINLESS STEEL PLATE FROM SWEDEN
UNDER THE ANTIDUMPING ACT

Assistant Secretary of the Treasury Edward L. Morgan announced today Treasury's actions with respect to stainless steel plate from Sweden under the Antidumping Act of 1921, as amended. This plate is used in the manufacture of a variety of scientific and industrial equipment.

These decisions will be published in the Federal Register of February 2, 1973.

Assistant Secretary Morgan announced that stainless steel plate from Sweden is being, or is likely to be, sold at less than fair value. 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.

Simultaneously with the determination of sales at less than fair value, the Treasury Department issued a three-month withholding of appraisement order covering imports of this merchandise from Sweden. The significance of the three-month withholding of appraisement is that imports of the merchandise will not be appraised for the three months pending the Tariff Commission's determination. If the Tariff Commission issues an affirmative injury determination, dumping duties will be assessable effective as of the date of the withholding action. If the Tariff Commission issues a negative injury determination, the case will be closed, and no dumping duties will be assessed.

During the period of January through June 1972, imports of stainless steel plate from Sweden were valued at approximately $3.6 million.

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

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FOR IMMEDIATE RELEASE February 2, 1973

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 15, 1973, in the amount of $4,202,575,000 as follows:

91 -day bills (to maturity date) to be issued February 15, 1973, in the amount of $2,400,000,000, or thereabouts, representing an additional amount of bills dated November 16, 1972, and to mature May 17, 1973 (CUSIP No. 912793 QU3) originally issued in the amount of $1,901,200,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,800,000,000, or thereabouts, to be dated February 15, 1973, and to mature August 16, 1973 (CUSIP No. 912793 RQ1).

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, Friday, February 9, 1973. 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

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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 15, 1973, in cash or other immediately available funds or in a like face amount of Treasury bills maturing February 15, 1973. 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.

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

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FOR IMMEDIATE RELEASE February 2, 1973

SIDNEY S. SOKOL RETIRES FROM TREASURY

Sidney S. Sokol, Deputy Fiscal Assistant Secretary of the Treasury, is retiring on February 3, 1973, after more than thirty-seven years of public service.

In a Special Citation formally recognizing Mr. Sokol's "extraordinary performance as a practitioner of the art of good government," Secretary of the Treasury George P. Shultz described him as an "administrator par excellence, gifted technician, inspiration to his associates, pragmatic activist, and dedicated idealist" who "has devoted his great energies and his superior abilities for more than thirty-seven years to the achievement of a single goal - the highest quality service to the public at the lowest cost to the taxpayers."

Mr. Sokol began his distinguished career at a Treasury accounting office in New York City in 1935. With the exception of four years with the War Department, he continued in Treasury's Fiscal Service, ultimately being appointed Deputy in 1971. He was Commissioner of the Bureau of Accounts from 1965 to 1971, Deputy Commissioner from 1961 to 1965, and served in numerous management roles during the preceding years. He is the recipient of the Department of the Army's Meritorious Civilian Service Award and Treasury's Meritorious Service and Exceptional Service Awards.

Born in New York City, Mr. Sokol received his BS and MBA degrees from the College of the City of New York and did graduate work at Columbia University. He is a Certified Public Accountant in New York State. Mr. Sokol is married to the former Evelyn Gold, also a native of New York City. The Sokols reside at 623 Warfield Drive, Rockville, Maryland.

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SECRETARY GEORGE P. SHULTZ

SAVINGS BONDS COMITTEE ANNUAL MEETING

Jan 31, 1973

U.S. TREASURY DEPARTMENT

MAN: ...officer Louis Welles. Thank you very much.

As you can well imagine, Secretary Shultz's schedule is perhaps one of the busiest in the United States. About an hour or so ago, he was in Washington attending some very important meetings. And those meetings are scheduled to resume promptly on his return. However, because of his great interest in the Savings Bond program, he flew here by special plane to be with us today. Therefore we are going to revise our agenda so that the Secretary can speak to us before lunch, in order to -- for him to get back to Washington for his very important meetings.

Secretary Shultz is a man who the New York Times recently described as "commander of fiscal policy." As assistant to the President and chief economic spokesman he has been asked to wear many hats, and it is clear to all that he wears all of these hats with distinction.

Ladies and gentlemen, it is my great privilege and honor to present the Secretary of the Treasury, the Honorable George P. Shultz.

[Applause]

SECRETARY GEORGE P. SHULTZ: Thank you, Mr. Chairman, Secretary Fowler, Secretary Anderson.

First let me reassure you there is going to be an invocation. However, it will come just before you eat, and first you have to listen to me. Now, I questioned the chairman

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about that a little bit, because it seemed to me it might be well to have the invocation before I speak; it might help me a little bit in putting my points across. But in any case I appreciate very much your willingness to rearrange the schedule somewhat. And perhaps it may turn out to be a bit of a precedent, if it turns out that if you have to listen before you eat perhaps you can pay a little more attention.

Now, as the chairman said, the basic reason for coming here is to meet with you and talk with you about the importance of the Savings Bond program and to express my appreciation on behalf of the President and the Treasury Department for the work that you have done and that I know you will do. This program is of great importance, of course, to the government, to the Treasury. And I believe it is a virtually unknown fact that we have outstanding something on the order of $58 billion of Savings Bonds. So it is a great big piece of the financing of the federal government, of your government. So it's very important to us. It's a relatively stable portion of the debt. And we have been struggling with some financing that we'll announce this afternoon. And every time that you go through this process you see how important it is.

I believe it's something that can be very important to companies, as it helps to pull everybody together in an effort that can be broadly supported and is generally and surely in line with the national interest. And I think it's something that is of great importance and interest and good for individuals who subscribe and take these bonds, since it encourages saving and encourages saving in a manner that can get a reasonable rate of return.

Now, how good a deal it is as far as the individual is concerned -- and I know all you financial wizards probably figure you can do better -- on the other hand, how good a deal it is depends a great deal on how good a job we do in obtaining a strong prosperity with reasonably stable prices. If we have reasonably stable prices the Savings Bond program will go and it'll be a good deal and you can sell it -- sell it with good conscience. If we have a wildly escalating inflation then the Savings Bond is not such a good deal and you'll have a lot more difficulty.

So I thought it would be appropriate, in coming here and talking about the program, to talk primarily about that effort to attain prosperity with reasonably stable prices, and particularly about the so-called Phase III and what is that all about, because it seems to me it keys so closely to your objective.

Now, let me first recall an incident that happened

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in the Cabinet Room the first Cabinet meeting that the President held following his inauguration. And we found at our places around the Cabinet table this handsomely bound leather booklet. And I thought, "My gosh, what a strong agenda we have today. It looks pretty thick. We're going to be here all day." But on opening it up I found it was a very interesting document. It's a four-year calendar, and a rather unusual document. And you start in 1973 on January 20, 1973, and what it says on the calendar is, "There are 1,461 days remaining in the second term of the Nixon administration." And you come to the last page, of course, and here's January 20, 1977 -- "No days remaining."

And the President had a message for us which I think is appropriate for this topic and appropriate for many topics. And the message was really two-fold and it will form sort of the theme of what I want to say to you on Phase III. The first part of the message was, "Well, there really aren't so many days. And we need to make each day count and use this calendar and see if you can't write down in each one of those spaces something worthwhile that you did on each one of those days. So make each day count. Do something worthwhile for your government in the span of time that's been given to us to work for the national interest."

And the second message that he had, a very Nixonesque message, as I have worked with the President, was, "Well, it is a limited span of time all right, but we all know that you have to invest something today in order to get something tomorrow. So let us have a sense of strategy about what we do. Let us try to have the situation unfold so that it may be we will have to do some tough things today in order to get a pay-out a year from now or two years from now." That's a familiar concept to those of you in the world of investment. And it is a concept that the President has put before us -- to work, of course, to do everything you can today, but also to have an eye to the future, to the two-year span, to the four-year span, to see if we can't put some things in place that will really work for us in the long run.

Now, taking off from that and asking the question, what have we got going for us in 1973 and in the second four years that in a sense we didn't have going for us in the past four years and in 1972 that bears on the outlook for Phase III in its broadest sense? -- well, I think, first of all, and most importantly, we have peace. It is so frustrating to bring this negotiation to an end, it is so frustrating, I know, for us to see how difficult it is for this truce to settle down; nevertheless, we have peace. And that is going to sink in and it's going to make a tremendous difference. I know people have a hard time believing it. And probably people won't really believe it until they see the first POWs come home. And maybe they won't really believe it until they see the last POWs come home.

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But we have peace. And gradually that fact is going to sink in and it's going to make a tremendous amount of difference to all of us.

Second, we do have an economy that is rising, with all of the implications of a rising economy, the productivity gains generated by that that are so important in dealing with our long-run competitive situation as well as our immediate inflationary problem. And we have a situation in which the rate of inflation has been reduced, whereas four years ago the rate of inflation was on the rise. So our environment is different, and that is something very important going for us. And I think kind of in line with that we have less of a feeling in the country today, and justifiably so, that somehow or other everything is out of control. We don't have the riots in the cities; we don't have the turbulence on the campus that we did. There seems to be a little bit more of a situation where society is at least moderately under control. And that is exhibited in the economic scene, and it has its impact on the economic scene.

So against that general background, then, let's look at some of the more particular ingredients of Phase III. Now, let me call to your mind, first of all, that in the history of efforts in the free world to use so-called "incomes policies" or wage/price policies of one kind or another we see a definite correlation between the extent to which countries have used these policies and their experience with inflation. And interestingly enough, the more they have used these policies the less successful they have been in controlling inflation. Now, there's a very simple reason for that, I believe; and that is that the existence of a wage/price control scheme of some kind allows people to say to themselves: "I don't have to worry so much about the fundamentals. I don't have to worry so much about the budget policy and the monetary policy, because this wage/price system is somehow going to take care of the problem." And of course is the fundamentals are not under control, the wage/price system can't do its job, can't contribute what it can contribute.

Now, the President has not fallen for that. He has maintained all the way through Phase I, Phase II, Phase III his sense of the fundamental importance of the fundamentals. And so I think the most important part of Phase III is the budget picture. And I might just recall something that happened to me on the day that Phase III was announced. I had met with the President for many times on it, and at the last meeting we had on it he said, "Well, now, when you go and announce this, George, be sure that you emphasize the importance of the fundamentals."

So, particularly since I'm agreed, I said, "Yes, sir -- be glad to." And then as I was waiting around to -- to conduct the briefing I got a message via Ron Ziegler: "The President

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wants to be sure you remember -- emphasize the fundamentals." And about 15 minutes before I was supposed to brief, I got asked to come into the Oval Office and the President said, "Now, George, remember: the fundamentals are very important, and you lay that right out on the line."

So I went out and I did. And I really felt that I hit it very strongly with the press. And of course there wasn't a word in the papers about it, not one single word. But that doesn't mean the fundamentals aren't important. The press missed the point. And they are. And the budget that the President has laid down is of tremendous significance in this sense.

You remember six or eight months ago the President called for a ceiling on spending and we started talking about we can't spend more than $250 billion. And all of the people who know everything registered their view, from the research institutions on both the Left and the Right and the Center and the business economists and the academic economists. And everybody said, "Look, the budget's out of control. It's impossible to bring it down to $250 billion." And when the President said he wasn't going to be for a tax increase, they all said, "Oh, you're lying. It's just an election statement. And it -- it can't be done."

That was the atmosphere. You all remember that. Probably you all thought that yourselves. But here we are, and in fiscal '73 the President is going to deliver a -- has delivered a $250 billion outlay budget; and it is do-able and it is going to be done. And we have a fiscal '74 budget that maintains the outlay level within the revenues that will be generated as we approach full employment. And furthermore, in an unprecedented move, the President has projected in detail a fiscal '75 plan on outlays primarily in order to demonstrate that this picture is not out of control and if we can exercise discipline we can have rising prosperity with reasonably stable prices based on a responsible budget and without a tax increase. It can be done. And the whole projection is by way of supporting that point. And I observe by this time people have generally come around to the President's point of view and they now believe it, because he has put the facts in place.

Now, it took some doing to do it. And you can get an idea of the -- of the extent of the problem by looking through these budget books. I wish I had a big chart up here, but that's more important. But there is a chart in the budget book showing the impact of restraining outlays, showing that for fiscal '73 we took $11 billion out of what the unconstrained picture would have resulted in; it would have gone to $261 billion. And that carries on to subsequent years. If you cut back in '73, you

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don't lay that prospective spending in for '74 or '75. And it comes to $19 billion in fiscal '74 and $24 billion in fiscal '75. And that is the difference between what everybody thought was the case and what the President has brought into place by the strong actions that he has taken.

So we have a big turnaround there and a determination to pursue the fundamentals, to use wage and price controls and incomes policies in the most effective way we can for '73 -- but based on adherence to the fundamentals in terms of budget policy, so that we can really get some mileage out of Phase III.

Having said that, now let me turn to Phase III and suggest to you the principal differences, as I see it, between what we had last year and what we are looking forward to this year and why it is that the President felt, and we all felt, in designing Phase III that it was the most effective use of the incomes policy tools that we have in our hands that we could devise, more effective than a return to Phase I or a continuation of Phase II.

First of all, I believe if you look at the statistics it is clear that the biggest problem that we have had in 1972 has been with food prices. We have had a skyrocketing picture there at the raw agricultural price level, and for the housewife, she is all too familiar with what has happened on that score. If you took the food price picture away, the overall performance has been quite good. But the food price picture has brought the average up and in itself is a tremendous problem for us.

Now, what happened in '72? Well, what happened is that the supply of agricultural produce rose all right, but we had a tremendous increase in demand that was the consequence of world-wide conditions as well as the prosperity in the United States. So the demand increased a lot faster than the supply did, and we had rising prices.

Now, what have we done about that in Phase III? We have taken some very strong action, some of which, in the spirit of the President's calendar, will be paying off fairly close at hand, many of which, however, are investments in what will be happening to prices six months from now, eight months from now, 12 months from now. We have released from the set-aside very substantial amounts of acreage, on the order of 45 million acres as compared with last year. That's a tremendous boost to supply inherent in that. We are selling the stocks that we have on hand and emptying the bins, not only the major bins that are commercially and governmentally controlled but storage on the farm which government loans support. That loan program will be ended on May 31st. So that the storage is what is on

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hand is being loosened up and that material will flow to the market. We have opened up on meat our borders to imports. There are no quantitative restrictions left. The President did that in the middle of last year. It did bring about a result, not a huge result but a meaningful and significant one; and that is being carried forward this year. We have changed the regulations so that set-aside acres that are left can be grazed upon; and that also is an important move that will stimulate supply. Then we have provided administratively so that all of the marketing orders and things of that kind that flow out of the department will pass through the procedures of the Cost of Living Council so that we have a -- a look from the consumer's standpoint at the things that are going on as far as government agricultural policies are concerned.

Now, we think what all this adds up to is a very significant increase in supply, so that we feel we can say with considerable confidence that the prices of raw agricultural products will be no higher at the end of this year than they are at the beginning -- no higher at the end of the year than they are at the beginning. We expect to see a sort of a bow-shaped picture here. So first, and I think of great significance, in Phase III are strong actions that will affect food prices.

Now, second -- and I think if you study incomes policies around the world you'll see how our people have struggled to bring this about -- second, we have the cooperation of management and labor, and we have an outstanding labor/management advisory committee that will help us on the wage side of this picture, as it did in Phase II. You remember that we did have labor participation in the setting of the basic wage policy. And I myself believe that that had a great deal to do with the willingness that was exhibited to conform to those policies. We were fortunate that Frank Fitzsimmons of the Teamsters stayed on that board and helped to administer the regulations that were put forward. And I think now it is a very important marker as we look to 1973 that in the development of our policy on wages for 1973 we have the cooperation of organized labor and an outstanding group of management people working with them.

I might note in this connection that the outstanding work done by the construction industry stabilization board will continue.

Now, third, in terms of the environment it is markedly improved. I've mentioned the price picture. On the wage side of things there's a very interesting contrast to be made between the situation at the start of this three-year cycle of collective bargaining and the situation at the start of the last two cycles. We go back and look at the collective bargaining that was going to take place in 1967 and ask ourselves in the industries that

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we're going to bargain what was happening the year before to the average hourly earnings in that industry as compared with what was happening in the economy as a whole. And the picture just jumps out at you. And what was happening is that in the industries that were coming into the big bargaining, the workers in those industries had an increase in their average hourly earnings of a lesser amount than the average of all workers; so they were losing in real earnings, and they were also losing in relative wage position. And when you trace that through that is true of 1967, 1968, 1969, 1970, industry after industry, without exception. And that, of course, is a fundamental ingredient for an explosive situation in collective bargaining and very big first year settlements.

That situation does not prevail today. The industries that will be bargaining this coming year have had their -- the workers in those industries have had the experience, for the first time since 1965, of two years of rising real earnings. And their average hourly earnings have been going up in the last year or two at a pace at least as rapid, and more rapid in most cases, than the average. So the situation is just turned around. The environment, the thing that we're going in with, is much better.

Now, finally -- and this is the element of Phase III that has gotten the most note -- we have the same rules of the road, you might say, as far as price regulations are concerned as we did in Phase II. They have been adjusted, we think in an intelligent manner, but basically they are of the same nature. But we are putting more emphasis in Phase III on self-administration, as compared with bureacratic administration, of those rules.

Now I see my friend over here shaking his head. Why is it that the financial community has such faith in bureaucracy and so little faith in the sensitiveness and the sensibility and the common sense of the average guy running his company, running his union, running his life, to do something that is in conformity with the rules? If you study Phase II and what was beginning to happen -- and we were advised by a great many people on this -- you saw a developing series of anomalies, inefficiency, ineffectiveness coming into the American economy as a result of the way the rules were impacting. And with all of the good will and good efforts in the world, the bureaucracy just cannot keep up with the magic of a free market system and what it does to adjust things out.

So we feel quite confident that self-administration will produce, used with common sense, behavior in conformity with the rules but more sensible and sensitive to the adjustments that have to take place. But at the same time, if people do not conform to the rules or where somebody does not conform to the rules, we will be able to find out about that promptly

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and we will take action; we will impose mandatory controls. Now, we are sort of being dared to do that. It's -- it's a -- it's an odd kind of thing. It isn't difficult to clobber somebody from Washington. That's the easiest thing in the world to do, to bring in, preferably, some head of big business and clobber him; Washington loves it. So it's relatively easy to do. But the trick here is, certainly to be ready to clobber people when they need it -- and we will -- but to induce people to do voluntarily, like you pay your income tax voluntarily somebody said, to do voluntarily what the rules prescribe and to be sensible about it.

I think it is sort of like as if we had a situation in which people were driving their cars according to a specified speed and before you could change the speed of your car you had to go to Washington and get permission. And that was Phase II. In Phase III we say, "The rules are the same, the traffic laws are the same, and you sort of adjust to the conditions as you see them on a self-administering basis. But if you speed, you're going to get picked up; and if you're a drunken driver, you're going to lose your license." And we can do that; and we will do that. But we think on the basis of the communications to us that people basically want to have this program succeed and are basically cooperative and will be cooperative with us. To the extent they don't feel that way, they'll hear from us.

So I think on the whole Phase III is a considerable strengthening of Phase II and will bring us success in our endeavors. We know that the program is ambitious. We know that to attain a 2.5 percent rate of inflation by the end of the year is an ambitious goal. But we believe that it is attainable -- first, because we're not that far away from it now in the economy, the private nonfarm economy generally, so if we can just keep behaving reasonably, the way we have, that part is in the bin; second, because we feel we have taken steps and will continue to take steps on the food price side of this equation, which has been the most difficult side, that will change the situation in '73 as compared with '72 and in a manner perfectly consistent with strong and rising farm income based on more product at the same prices rather than less product at higher prices; that's what's going to do the trick for us. So it's attainable -- next because it's based on fundamentals. We haven't lost sight of the fundamentals. We're sticking with them. And the President has put forward a strong budget policy; he is going to fight for it, and we believe he is going to win, because we have the people on our side.

Now, I have felt it was particularly appropriate to come here to a group of people who are gathered to help the government by helping with our program to sell Savings Bonds, because in that program you obviously have a great interest in the control of inflation. And second, because you're doing

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this you obviously are willing to give some of yourself in a cooperative vein for the good of the country. And so it seems to me appropriate to make a kind of a twin thank-you for your help and cooperation in the Savings Bond program and also for your help and cooperation, as you have given in the past and I know you will give in the future, to making the broad economic policy that we're embarked upon and the particulars of Phase III a great success, so that we can look back on 1973, as the President says, as an outstanding year for the American economy -- not just another very good year, but an outstanding year for the American economy. We can do it if we work together. The government is driving hard for this objective. I know we'll have your cooperation. And we're going to make it.

Thank you all very much.

[Applause]

MAN: Mr. Secretary, on behalf of all here present, I want to thank you for being with us and particularly for the -- your willing to take the time to speak about Phase III.

I want to be very careful what I say now. I would like -- ask Father Farley to come forward, not to say a prayer, but to give us the invocation.

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FOR RELEASE AT 10:00 A.M.

STATEMENT BY THE HONORABLE GEORGE P. SHULTZ
SECRETARY OF THE TREASURY
BEFORE
THE HOUSE APPROPRIATIONS COMMITTEE
MONDAY, FEBRUARY 5, 1973, 10:00 A. M.

Mr. Chairman and Members of this distinguished Committee, I am pleased to appear before you today to discuss the Federal budget.

The tables appended to my statement summarize the revenue projections of the budget, so I will merely touch on the highlights. Our current estimates show a $16.3 billion gain in receipts for the current fiscal year, which will boost total revenues to $225 billion. Our projections for 1974 indicate a $31 billion gain in revenues. Most of this very large increase is due to the strength of the economy, but some $8 billion in added receipts stem from increased social security taxes that were legislated last year. Next year's receipts, then, are estimated at $256 billion.

As you know, the President has recommended an $18 billion increase in Federal expenditures to a total of $250 billion for the current fiscal year. This will produce a very substantial budget deficit: almost $25 billion. On a full-employment basis, however, the budget will again be roughly in balance.

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For the coming fiscal year, the President has requested a budget that calls for a $19 billion increase in Federal outlays, bringing total Federal spending to about $269 billion. This rise in spending coupled with the more rapid rise in receipts will cut the 1974 budget deficit almost in half, to $12.7 billion. On a full-employment basis, outlays and receipts are in balance.

The President's budget requests for 1973 and 1974 will help the United States achieve many important objectives. The substantial increases in Federal outlays provide for an adequate military defense and for many of the growing needs of the American people.

Furthermore, the budgets for these two fiscal years are fully consistent with our basic economic objectives. Last year, employment increased by an extraordinary 2.3 million and total economic output advanced 6-1/2 percent. The rate of inflation slowed to about 3 percent. This year we expect economic activity to continue its rapid advance: real economic growth for calendar year 1973 will be approximately 6-3/4 percent and the unemployment rate will drop to around 4-1/2 percent by the end of the year. We look for the increase in consumer prices to slow to 2-1/2 percent or less by the end of the year.

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Our improving economic performance, both last year and this year, is traceable primarily to the vigor of the private sector, although the stimulus provided by our budget deficits has made a contribution to the expansion. This stimulus, however, is being reduced sharply as the economy approaches its full potential output.

In this way the budget is on guard against inflation. Both the 1973 and 1974 budgets are close to balance on a full-employment basis, a condition that is necessary to prevent a revival of the massive inflationary pressures that were generated by the runaway budgets of 1966-68. This Committee was instrumental in developing the bipartisan Federal budget in fiscal 1969 that marked a return to sound fiscal policy. In order to prevent a resurgence of inflation, and to prevent also an increase in taxes, we again need close cooperation between the Congress and the Executive Branch.

Such cooperation is vital to preserve the integrity of fiscal policy. Only this way can these budgets serve the needs of the American people. Only this way can we maintain a healthy economic environment in which the economy can grow, the number of unemployed can be reduced and the rate of inflation can continue to slow. If we fail in this endeavor, if Federal spending soars beyond full-employment revenues, it cannot help but lead to more inflation or more taxation or both.

Budget Receipts

Under Legislation Proposed in Fiscal 1974 Budget Document

(Billions of Dollars)

	1972 actual	1973 estimate	1974 estimate
Individual income taxes	94.7	99.4	111.6
Corporation income taxes	32.2	33.5	37.0
Social insurance taxes and contributions:			
Employment taxes and contributions	46.1	55.6	67.9
Unemployment insurance	4.4	5.3	6.3
Contributions for other insurance and retirement	3.4	3.7	4.0
Excise taxes	15.5	16.0	16.8
Estate and gift taxes	5.4	4.6	5.0
Customs duties	3.3	3.0	3.3
Miscellaneous receipts	3.6	4.0	4.1
Unified budget receipts	208.6	225.0	256.0
Deduct:			
Trust fund receipts	73.0	92.0	105.5
Intragovernmental transactions	-13.2	-21.2	-20.8
Federal funds receipts	148.8	154.2	171.3

Underlying Economic Assumptions

(Calendar years. In billions of dollars)

	1971 actual	1972 estimate	1973 estimate
Gross national product	1,050	1,152	1,267
Personal income	861	936	1,018
Corporate profits before tax	83	94	108

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Projected Changes in Budget Receipts
Fiscal Years 1973 and 1974

	Fiscal 1973 from Fiscal 1972	Fiscal 1974 from Fiscal 1973
	(billions of dollars)	
Revenue changes traceable to:		
Economic growth	+ 22.0	+ 23.8
Tax Reform Act of 1969	- 2.7	- 1.6
Revenue Act of 1971	- 7.7	+ 1.6
Changes in depreciation regulations	- 0.2	- 0.6
Social security changes	+ 6.6	+ 8.1
Other changes	- 1.6	- 0.3
Total	+ 16.3	+ 31.0

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ATTENTION: FINANCIAL EDITOR

FOR RELEASE 6:30 P.M. February 5, 1973

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 9, 1972 , and the other series to be dated February 8, 1973 , which were invited on January 30, 1973, 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 10, 1973			182-day Treasury bills maturing August 9, 1973		
	Price	Approx. Equiv. Annual Rate		Price	Approx. Equiv. Annual Rate	
High	98.578	5.625%		97.058	5.819%	
Low	98.561	5.693%		97.030	5.875%	
Average	98.568	5.665%	1/	97.043	5.849%	1/

84% of the amount of 91-day bills bid for at the low price was accepted
29% 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	$ 48,655,000	$ 13,255,000	$ 49,090,000	$ 4,090,000
New York	3,125,370,000	1,995,790,000	2,859,605,000	1,582,105,000
Philadelphia	17,680,000	17,680,000	25,055,000	5,055,000
Cleveland	26,510,000	26,510,000	34,375,000	9,375,000
Richmond	16,830,000	8,830,000	22,650,000	4,220,000
Atlanta	14,790,000	13,265,000	9,445,000	9,065,000
Chicago	289,315,000	137,975,000	257,785,000	32,525,000
St. Louis	63,650,000	43,650,000	45,235,000	16,735,000
Minneapolis	28,975,000	28,975,000	31,775,000	23,775,000
Kansas City	34,190,000	27,310,000	21,325,000	16,570,000
Dallas	38,080,000	19,760,000	30,765,000	8,765,000
San Francisco	117,025,000	67,075,000	129,035,000	88,035,000
TOTALS	$3,821,070,000	$2,400,075,000 a/	$3,516,140,000	$1,800,315,000 b/

a/ Includes $197,125,000 noncompetitive tenders accepted at the average price of 98.568
b/ Includes $ 87,335,000 noncompetitive tenders accepted at the average price of 97.043
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 5.83 % for the 91-day bills, and 6.11% for the 182-day bills.

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FOR IMMEDIATE RELEASE February 6, 1973

ANTIDUMPING INVESTIGATION INITIATED ON ACRYLONITRILE-BUTADIENE-STYRENE TYPE OF PLASTIC RESIN IN PELLET FORM FROM JAPAN

Assistant Secretary of the Treasury Edward L. Morgan announced today the initiation of an antidumping investigation on imports of acrylonitrile-butadiene-styrene type of plastic resin in pellet form from Japan. This resin, commonly referred to as ABS plastic, is used in a number of engineering type applications such as telephone and appliance housings and drain, waste and vent pipe.

Notice of this action will be published in the Federal Register of February 7, 1973.

Mr. Morgan's 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 acrylonitrile-butadiene-styrene type of plastic resin in pellet form imported from Japan during the period of January through September 1972 amounted to approximately $5.6 million.

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FOR RELEASE ON DELIVERY

STATEMENT BY THE HONORABLE GEORGE P. SHULTZ
SECRETARY OF THE TREASURY
BEFORE
THE JOINT ECONOMIC COMMITTEE
WEDNESDAY, FEBRUARY 7, 1973, 10:00 A. M.

Mr. Chairman and Members of this Committee, I am pleased to be here today to discuss the economy.

The Nation's basic economic goal is to achieve prosperity for all our citizens, without war and without inflation. We made considerable progress toward that goal in 1972: employment and output advanced sharply, unemployment and inflation declined, and we saw the start of a major change in our international economic relationships. I expect that we will make further progress in all of these areas in 1973.

Economic growth is now under a full head of steam that will carry forward through the year ahead. This momentum is coming primarily from the private sector of the economy, but the Federal Budget is also contributing to the expansion. As is appropriate, this fiscal stimulus will be reduced as the economy continues to expand and enters the zone of full resource utilization.

As we approach 1974, we must be on guard against either a burst of economic growth that would carry us through the upper bounds of the full employment zone, as occurred in 1967, or a marked slowdown in growth that would leave us short of full employment, as in 1959-60. Our present course will, I believe, put us on the path of steady growth at full employment and minimize the risk of straying off the path to one side or the other.

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At the same time and on the assumption that fiscal and monetary discipline will be maintained, we will make further progress in the fight against inflation. The stabilization program contributed to the slowing of price and wage increases in 1972, and we expect it to make a contribution again in 1973. The program has been modified so that in much of the economy the rules are now self-administered, nevertheless; a comprehensive system of restraints over prices and wages remains in force.

In some ways, the economy and Federal spending now stand at roughly the same place they did in 1964 or 1965. At that time, the economic recovery was well underway, inflation was still near a minimum, and the unemployment rate was dropping rapidly. Fiscal policy was stimulative, supported by the 1964-1965 tax cuts, but the Federal Budget was in approximate balance on a full employment basis. However,as domestic spending continued to increase, and as military spending for our growing involvement in Southeast Asia soared, our fiscal and monetary policies became irresponsibly stimulative and pushed the nation into an inflationary boom from which we are still recovering.

This committee became increasingly vocal during the mid-1960's in expressing grave concern about that course of events. In 1968, the Congress and the Executive Branch together achieved a major reversal of fiscal policy, by regaining control over the Federal Budget. This effort was carried out by two Presidents and by members of the Congress on both sides of the aisle.

Since 1968, the Federal Budget has generally remained under control. Severe restraint on military spending has provided room for an enormous expansion of spending for human resources and for large tax cuts. At present, however, all of the demands for increased Federal spending cannot be met. While there is room in the 1973 and 1974 budgets for an increase of $37 billion in total outlays -- mostly for human resources and general revenue sharing -- it is vital that we cut back decisively those programs that are not worth the expenditure.

Thus, it is again critical that we have close cooperation between the Congress and the Executive Branch. Failing such cooperation, Federal spending will again rise at a pace that would generate an unacceptable rate of inflation in future years.

INTERNATIONAL DEVELOPMENTS

The focus of the Administration's efforts with respect to the international economy is clear. First, we must continue our efforts to bring our external trade and payments position into a sustainable position. Second, we must press ahead with the urgent work of international monetary and trade reform to build an international economic order within which all nations are treated fairly and can grow and prosper.

These goals are interrelated. Without a stronger dollar and trade position, the prospects for monetary stability and an open trading order will dim. Without an agreed framework for the monetary and trading systems, unilateral defensive actions by one country or another can frustrate the restoration of an acceptable balance in our payments.

Last year, the overall U.S. balance of payments position showed a reduced, but still very substantial, deficit. However, the improvement can be traced entirely to some lessening of speculative pressures and smaller capital out-flows. Meanwhile, our trade deficit was larger in 1972 than in 1971, although the deteriorating trend was arrested in the second half of the year.

The larger trade deficit last year is explicable in terms of cyclical factors and the initial, inevitably perverse effects of the exchange rate realignment. Looking ahead, we can foresee some improvement.

Nevertheless, I must emphasize the hard fact that we have a long way to go to achieve the trade surplus we need to bring our overall payments into sustainable equilibrium. We have learned that process will take time. I believe the exchange rate realignment is beginning to help. So is our relatively good performance toward restoring price stability at home. Yet, there can be no room for complacency. The stark fact of our large deficit is plain for all to see. Sporadic speculative disturbances in exchange markets reflect the underlying uncertainties. We must do what we can to speed the process of adjustment.

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In particular, we need to recognize the favorable effects of exchange rate realignment will be undermined if we fail to manage our domestic economy effectively. Our domestic and international objectives coincide in demanding that we resist inflationary increases in costs and prices. Over the past two years, U.S. price performance has compared favorably with that of our competitors. We are resolved to do still better. The President's budget, the Wage-Price Program, and the full range of our economic policies reflect our determination to do so.

For the longer term, we seek a major strengthening of the international economy through further elimination of trade barriers and through thorough reform of the international economic system.

Negotiations on reform of the international monetary and trading system are already in full progress, mainly under the auspices of the Committee of Twenty created last year. The United States played a leading role in establishing that forum representative of world-wide interests, and has advanced a series of specific reform proposals to stimulate the discussions.

These discussions are dealing with fundamental issues of deep concern to individual nations. It is understandable -- indeed it may be essential -- that conclusions be deferred in one area of discussions until the pattern of the whole can be more clearly foreseen. Moreover, seeming agreement on such broad generalities as an improved adjustment process or convertibility can hardly be meaningful until those generalities are fleshed out more with concrete approaches, incentives and obligations. I believe the negotiation process has achieved a better understanding of these issues, and more specifically the proposals which we and others have submitted. In short, the committee is laying the intellectual basis for ultimate decision making.

We all recognize there are deep-seated and fundamental differences on many aspects of reform, and I have no illusions about an easy solution. But I am encouraged that there is at least a common view of the broad objectives, and a general willingness to try to resolve our differences.

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I continue to hope that the main outlines of a new system can be agreed by the next IMF meeting in Nairobi, and I assure you the United States will do its best to help meet that target.

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

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FOR IMMEDIATE RELEASE FEBRUARY 7, 1973

William E. Simon, Deputy Secretary of the Treasury, issued the following statement today:

Several questions have been asked about the role the President has assigned me as Chairman of the Oil Policy Committee.

First, let me emphasize that the nation's energy problem is of such importance that I will be directly and emphatically involved in policy-making and implementation.

Our energy demands are outpacing our national energy supply, so the decisions of this Committee will become increasingly important to the nation's well being.

New solutions must be found through new or improved approaches to the problems that face us. Some of these new proposals will come from the Oil Policy Committee.

The President has directed that, under the new Executive Order, the Oil Policy Committee be an advisory group to the Chairman, who will report to the President through the Assistant to the President, Secretary of the Treasury George P. Shultz. The Deputy Secretary of the Treasury has the responsibility for policy direction of the oil import control program, for coordination of the various agencies' efforts in this area, and for evaluation of the results.

I am already convinced there is a need for a fresh, objective approach to ensure that we provide:

--- An improved distribution system for import licenses.

--- A long range approach which is stable and predictable.

--- A program to stimulate adequate domestic exploration and refinery construction.

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I know that many of the above ideas are not new. What I hope to provide is the prod and the push to get action going in these fields.

For the past five days I have been conferring with Treasury aides and experts from the Interior Department and other government agencies on the shape of the new organization that results from the President's Executive Order. We hope to finalize within the next few weeks the plan by which this Committee will integrate and coordinate policy on oil imports. The policy and implementation functions will be merged to facilitate government operations in this area.

I plan to use as a staff aide in this project Duke R. Ligon, Director of the Treasury's Office of Natural Resources and a man who has been, and is, an adviser to the Secretary on oil and gas matters. Because of his expertise in this field, I shall also consult with Jack Bennett, Deputy Under Secretary of the Treasury. However, in view of his other responsibilities in the Treasury, he will not have a continuous direct role in policy matters.

The first meeting of the Oil Policy Committee will be held at the Treasury next week to discuss organization, immediate problems, and matters involving long range planning.

The Secretaries of State, Defense, Interior and Commerce, the Attorney General, the Chairman of the Council of Economic Advisers and the Deputy Secretary of the Treasury are members of this Committee. Observers at the Oil Policy Committee meetings regularly include officials of the Office of Management and Budget, the Environmental Protection Agency and an observer from the Energy Subcommittee of the White House Domestic Council.

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Department of the TREASURY NEWS
OFFICE OF REVENUE SHARING
WASHINGTON, D.C. 20220
TELEPHONE WO4-8711

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FOR IMMEDIATE RELEASE February 8, 1973

REVENUE SHARING CHECKS BEING MAILED TO INDIAN TRIBES AND ALASKAN NATIVE VILLAGES

The Treasury Department announced that Revenue Sharing checks for Calendar Year 1972 will be mailed Friday (Feb. 9) to eligible Indian Tribes and Alaskan native villages by the Office of Revenue Sharing.

Graham Watt, newly appointed Director of the Office of Revenue Sharing, said that 331 ckecks are being mailed out, totaling approximately $6.2 million.

Payment to the tribes and villages had been delayed because of insufficient data. Henceforth, the tribes and villages will receive their Revenue Sharing payments on a quarterly basis, along with other state and local governments.

The data used to determine the checks is based on April 1970 population estimates prepared by the Bureau of Census in cooperation with the Bureau of Indian Affairs, which also supplied the addresses of the tribal governments.

The State and Local Fiscal Assistance Act of 1972 specifies that Revenue Sharing funds will be allocated to Indian tibes or Alaskan native villages "having a recognized governing body which performs substantial governmental functions."

A tribe or native village receives its payments from funds allocated to a county area, on the basis of the proportion which tribal population represents of the total county area. Such payments must be spent for the benefit of members of the tribe or village residing in the county area from which the original allocation was made.

"Each tribe and village is being notified of the population data used in computing its allocation, and will have until March 15,1973, to challenge the data," Mr. Watt said. If errors are discovered, changes in allocations will be made.

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As with all recipient governments, the Alaskan native villages and Indian tribes will have to account for expenditure of their funds to the Secretary of the Treasury.

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

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February 7, 1973

ATTENTION: FINANCIAL EDITOR
FOR RELEASE AT 8:00 P.M., EST

RESULTS OF TREASURY NOTE AUCTION

The Treasury announced that it has accepted $1.0 billion of the $1.7 billion of tenders received for its new 6-3/4-year 6-5/8% notes auctioned today. The range of accepted competitive bids was as follows:

	Price	Approximate Yield
High	99.88 1/	6.65%
Low	99.21	6.77%
Average	99.40	6.74%

1/ Excepting 3 tenders totaling $372,000

The $1.0 billion of accepted tenders includes 58% of the amount of notes bid for at the low price, and $0.1 billion of noncompetitive tenders accepted at the average price.

In addition $0.6 billion of the notes were allotted to Federal Reserve Banks and Government accounts at the average price, in exchange for notes maturing February 15.

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

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February 9, 1973

NOTE TO CORRESPONDENTS

Attached is a copy of a transmittal letter from the Secretary of the Treasury to the Speaker of the House of Representatives proposing legislation to establish a Federal Financing Bank. A similar letter was sent to the President of the Senate. The draft legislation is also attached.

Similar legislation received favorable treatment from the Senate and from the House Ways and Means Committee last session.

THE SECRETARY OF THE TREASURY
WASHINGTON

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FEB 8 1973

Dear Mr. Speaker:

There is transmitted herewith a proposed bill "To establish a Federal Financing Bank, to provide for coordinated and more efficient financing of Federal and Federally assisted borrowings from the public, and for other purposes."

Such legislation is urgently needed because the tremendous increase in Federal credit program activity in recent years has greatly expanded the total Federal impact on the credit markets.

The widespread support for this legislation was evident from its prompt passage last year by the Senate and by its approval by the Ways and Means Committee of the House. I hope that the Congress will act promptly on this measure so that we can begin to realize the savings in interest costs and other benefits that the Federal Financing Bank would assure.

Many existing Federal agencies are now required to finance their programs directly in the securities markets. Similar financing arrangements have also been proposed for a number of new agencies. These agencies must develop their own financing staffs, and their abilities to cope with their principal program functions are lessened by the need also to deal with the complex debt management operations essential to minimizing their borrowing costs and avoiding cash flow problems which could disrupt their basic lending programs.

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Interest costs of the various Federal agency financing methods normally exceed Treasury borrowing costs by substantial amounts, despite the fact that these issues are backed by the Federal Government. Borrowing costs are increased because of the sheer proliferation of competing issues crowding each other in the financing calendar, the cumbersome nature of many of the securities, and the limited markets in which they are sold. Underwriting costs are often a significant additional cost factor due to the method of marketing.

Under the proposed legislation these essentially debt management problems could be shifted from the program agencies to the Federal Financing Bank. Many of the obligations which are now placed directly in the private market under numerous Federal programs would instead be financed by the Bank. The Bank in turn would issue its own securities. The Bank would have the necessary expertise, flexibility, volume, and marketing power to minimize financing costs and to assure an effective flow of credit for programs established by the Congress.

While many of the market financing activities of Federal agencies are subject to coordination with Treasury's financial management advisers, a large and growing number of these are not. Some of the coordination requirements are vague or incomplete, and none require advance submission of financing plans as would be required in the proposed legislation.

The Federal Financing Bank bill will not solve all of the problems in the financing of Federal and Federally assisted borrowings, but it will go a long way toward relieving them within a rational framework. The discipline of improved management of Federal financial operations is urgent now but will become even more critical for the years ahead.

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It would be appreciated if you would lay the proposed bill before the House of Representatives. An identical bill has been transmitted to the President of the Senate.

The Department has been advised by the Office of Management and Budget that there is no objection to the submission of this legislation to the Congress and that its enactment would be in accord with the program of the President.

Sincerely yours,

Geo P. Shultz

George P. Shultz

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

Enclosure

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A BILL

To establish a Federal Financing Bank, to provide for coordinated and more efficient financing of Federal and federally assisted borrowings from the public, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Federal Financing Bank Act of 1973".

FINDINGS AND DECLARATION OF PURPOSE

SEC. 2. The Congress finds that demands for funds through Federal and federally assisted borrowing programs are increasing faster than the total supply of credit and that such borrowings are not adequately coordinated with overall Federal fiscal and debt management policies. The purpose of this Act is to assure coordination of these programs with the overall economic and fiscal policies of the Government, to reduce the costs of Federal and federally assisted borrowings from the public, and to assure that such borrowings are financed in a manner least disruptive of private financial markets and institutions.

DEFINITIONS

SEC. 3. For the purposes of this Act--

(1) The term "Federal agency" means an executive department, an independent Federal establishment, or a

corporation or other entity established by the Congress which is owned in whole or in part by the United States.

(2) The term "obligation" means any note, bond, debenture, or other evidence of indebtedness, but does not include Federal Reserve notes or stock evidencing an ownership interest in the issuing Federal agency.

(3) The term "guarantee" means any guarantee, insurance, or other pledge with respect to the payment of all or part of the principal or interest on any obligation, but does not include the insurance of deposits, shares, or other withdrawable accounts in financial institutions, or any guarantee or pledge arising out of a statutory obligation to insure such deposits, shares or other withdrawable accounts.

(4) The term "Bank" means the Federal Financing Bank established by section 4 of this Act.

CREATION OF BANK

SEC. 4. There is hereby created a body corporate to be known as the Federal Financing Bank, which shall have succession until dissolved by an Act of Congress. The Bank shall be subject to the general supervision and direction of the Secretary of the Treasury. The Bank shall be an instrumentality of the United States Government

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and shall maintain such offices as may be necessary or appropriate in the conduct of its business.

BOARD OF DIRECTORS

SEC. 5. (a) The Bank shall have a Board of Directors consisting of five persons, one of whom shall be the Secretary of the Treasury as Chairman of the Board, and four of whom shall be appointed by the President from among the officers or employees of the Bank or of any Federal agency. The Chairman and each other member of the Board may designate some other officer or employee of the Government to serve in his place.

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

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FUNCTIONS

SEC. 6. (a) The Bank is authorized to make commitments to purchase and sell, and to purchase and sell on terms and conditions determined by the Bank, any obligation which is issued, sold, or guaranteed by a Federal agency. Any Federal agency which is authorized to issue, sell, or guarantee any obligation is authorized to issue or sell such obligations directly to the Bank.

(b) Any purchase by the Bank shall be upon such terms and conditions as to yield a return at a rate not less than a rate determined by the Secretary of the Treasury taking into consideration (1) the current average yield on outstanding marketable obligations of the United States of comparable maturity, or (2) whenever the Bank's own obligations outstanding are sufficient, the current average yield on outstanding obligations of the Bank of comparable maturity.

(c) The Bank is authorized to charge fees for its commitments and other services adequate to cover all expenses and to provide for the accumulation of reasonable contingency reserves.

TREASURY APPROVAL

SEC. 7. (a) To ensure the orderly and coordinated marketing of Treasury and Federal agency obligations and

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appropriate financing planning with respect thereto, and to facilitate the effective financing of programs authorized by law subject to the applicable provisions of such law, the prior approval of the Secretary of the Treasury shall be required with respect to--

(1) the method of financing,

(2) the source of financing,

(3) the timing of financing in relation to market conditions and financing by other Federal agencies, and

(4) the financing terms and conditions, including rates of interest and maturities,

of obligations issued, sold, or guaranteed by any Federal agency, except that the approval of the Secretary of the Treasury shall not be required with respect to (1) obligations issued or sold pursuant to an Act of Congress which expressly prohibits any guarantee of such obligations by the United States or (2) obligations guaranteed in connection with programs involving the guarantee of large numbers of individual obligations that are originated and serviced by local lending institutions and that are not ordinarily bought and sold in the same markets as bonds and other similar types of investment securities.

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(b) Upon receipt of a request from a Federal agency for his approval under subsection (a) of this section, the Secretary of the Treasury shall act promptly either to grant his approval or to advise the agency of the reasons for withholding his approval. In no case shall the Secretary of the Treasury withhold such approval for a period longer than one hundred and twenty days unless, prior to the end of such period, he submits to the Congress a detailed explanation of his reasons for so doing. Expedited treatment shall be accorded in any case in which the Federal agency advises the Secretary of the Treasury that unusual circumstances require such treatment.

(c) Federal agencies subject to this section shall submit financing plans to the Secretary of the Treasury at such times and in such forms as he shall prescribe.

INITIAL CAPITAL

SEC. 8. The Secretary of the Treasury is authorized to advance the funds necessary to provide initial capital to the Bank. Each such advance shall be upon such terms and conditions as to yield a return at a rate not less than a rate determined by the Secretary of the Treasury, taking into consideration the current average yield on outstanding marketable obligations of the United States of comparable

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maturity. Interest payments on such advances may be deferred, at the discretion of the Secretary, but any such deferred payments shall themselves bear interest at the rate specified in this section. There is authorized to be appropriated not to exceed $100,000,000, which shall be available for the purposes of this section without fiscal year limitation.

OBLIGATIONS OF THE BANK

SEC. 9. (a) The Bank is authorized, with the approval of the Secretary of the Treasury, to issue publicly and have outstanding at any one time not in excess of $15,000,000,000, or such additional amounts as may be authorized in appropriations Acts, of obligations having such maturities and bearing such rate or rates of interest as may be determined by the Bank. Such obligations may be redeemable at the option of the Bank before maturity in such manner as may be stipulated therein. So far as is feasible, the debt structure of the Bank shall be commensurate with its asset structure.

(b) The Bank is also authorized to issue its obligations to the Secretary of the Treasury and the Secretary of the Treasury may in his discretion purchase or agree to purchase any such obligations, and for such purpose the

Secretary of the Treasury is authorized to use as a public debt transaction the proceeds of the sale of any securities hereafter issued under the Second Liberty Bond Act, and the purposes for which securities may be issued under the Second Liberty Bond Act are extended to include such purchases. Each purchase of obligations by the Secretary of the Treasury under this subsection shall be upon such terms and conditions as to yield a return at a rate not less than a rate determined by the Secretary of the Treasury, taking into consideration the current average yield on outstanding marketable obligations of the United States of comparable maturity. The Secretary of the Treasury may sell, upon such terms and conditions and at such price or prices as he shall determine, any of the obligations acquired by him under this subsection. All purchases and sales by the Secretary of the Treasury of such obligations under this subsection shall be treated as public debt transactions of the United States.

(c) The Bank may require the Secretary of the Treasury to purchase obligations of the Bank issued pursuant to subsection (b) in such amounts as will not cause the holding by the Secretary of the Treasury resulting from such required purchases to exceed $5,000,000,000 at any one time. This

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subsection shall not be construed as limiting the authority of the Secretary to purchase obligations of the Bank in excess of such amount.

(d) Obligations of the Bank issued pursuant to this section shall be lawful investments, and may be accepted as security for all fiduciary, trust, and public funds, the investment or deposit of which shall be under the authority or control of the United States, the District of Columbia, the Commonwealth of Puerto Rico, or any territory or possession of the United States, or any agency or instrumentality of any of the foregoing, or any officer or officers thereof.

GENERAL POWERS

SEC. 10. The Bank shall have power --

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

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

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

(4) to conduct its business, carry on its operations, and have offices and exercise the powers granted by

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this Act in any State without regard to any qualification or similar statute in any State;

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

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

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

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

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

(10) to act through any corporate or other agency or instrumentality of the United States, and to utilize the services thereof on a reimbursable basis, and any such agency or instrumentality is authorized to provide services as requested by the Bank; and

(11) to determine the character of and the necessity for its obligations and expenditures, and the manner in which they shall be incurred, allowed, and paid, subject to provisions of law specifically applicable to Government corporations.

EXEMPTIONS

SEC. 11. (a) The Bank, its property, its franchise, capital, reserves, surplus, security holdings, and other funds, and its income shall be exempt from all taxation now or hereafter imposed by the United States or by any State or local taxing authority; except that (1) any real property and any tangible personal property of the Bank shall be subject to Federal, State and local taxation to the same extent according to its value as other such property is taxed, and (2) any and all obligations issued by the Bank shall be subject both as to principal and interest to Federal, State, and local taxation to the

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same extent as the obligations of private corporations are taxed.

(b) All obligations issued by the Bank pursuant to this Act shall be deemed to be exempted securities within the meaning of section 3(a)(2) of the Securities Act of 1933 (15 U.S.C. 77c(a)(2)), of section 3(a)(12) of the Securities Exchange Act of 1934 (15 U.S.C. 78c(a)(12)), and of section 304(a)(4) of the Trust Indenture Act of 1939 (15 U.S.C. 77ddd(a)(4)).

(c) Nothing herein shall affect the budget status of the Federal agencies selling obligations to the Bank under section 6(a) of this Act, or the method of budget accounting for their transactions. The receipts and disbursements of the Bank in the discharge of its functions shall not be included in the totals of the budget of the United States Government and shall be exempt from any general limitation imposed by statute on expenditures and net lending (budget outlays) of the United States.

PREPARATION OF OBLIGATIONS

SEC. 12. In order to furnish obligations for delivery by the Bank, the Secretary of the Treasury is authorized to prepare such obligations in such form as the Bank may approve, such obligations when prepared to be held in the

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Treasury subject to delivery upon order by the Bank. The engraved plates, dies, bed pieces, and other material, executed in connection therewith shall remain in the custody of the Secretary of the Treasury. The Bank shall reimburse the Secretary of the Treasury for any expenditures made in preparation, custody, and delivery of such obligations.

ANNUAL REPORT

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

OBLIGATIONS ELIGIBLE FOR PURCHASE BY NATIONAL BANKS

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

GOVERNMENT CORPORATION CONTROL ACT

SEC. 15. The budget and audit provisions of the Government Corporation Control Act (31 U.S.C. 841 et seq.) shall be applicable to the Federal Financing Bank in the same

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manner as they are applied to the wholly owned Government corporations named in section 101 of such Act (31 U.S.C. 846).

PAYMENTS ON BEHALF OF PUBLIC BODIES

SEC. 16. (a) Notwithstanding any other provision of this Act, the purchase by the Bank of the obligations of any local public body or agency within the United States shall be made upon such terms and conditions as may be necessary to avoid an increase in borrowing costs to such local public body or agency as a result of the purchase by the Bank of its obligations. The head of the Federal agency guaranteeing such obligations, in consultation with the Secretary of the Treasury, shall estimate the borrowing costs that would be incurred by the local public body or agency if its obligations were not sold to the Bank.

(b) The Federal agency guaranteeing obligations purchased by the Bank may contract to make periodic payments to the Bank which shall be sufficient to offset the costs to the Bank of purchasing obligations of local public bodies or agencies upon terms and conditions as prescribed in this section rather than as prescribed by section 6. Such contracts may be made in advance of appropriations therefor, and appropriations for making payments under such contracts are hereby authorized.

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NO IMPAIRMENT

SEC. 17. Nothing in this Act shall be construed as impairing any authority or responsibility of the President or the Secretary of the Treasury under any other provision of law, nor shall anything in this Act affect in any manner any provision of law concerning the right of any Federal agency to sell obligations to the Secretary of the Treasury or the authority or responsibility of the Secretary of the Treasury to purchase such obligations.

SEPARABILITY

SEC. 18. If any provision of this Act, or the application thereof to any person or circumstance, is held invalid, the validity of the remainder of the Act, and the application of such provisions to other persons or circumstances, shall not be affected.

EFFECTIVE DATE

SEC. 19. This Act becomes effective upon the date of its enactment, except that section 7 becomes effective upon the expiration of thirty days after such date.

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

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FOR IMMEDIATE RELEASE February 9, 1973

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 22, 1973, in the amount of $4,202,090,000 as follows:

91-day bills (to maturity date) to be issued February 22, 1973, in the amount of $2,400,000,000, or thereabouts, representing an additional amount of bills dated November 24, 1972, and to mature May 24, 1973 (CUSIP No. 912793 QV1) originally issued in the amount of $1,900,550,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,800,000,000, or thereabouts, to be dated February 22, 1973, and to mature August 23, 1973 (CUSIP No. 912793 RR9).

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, Friday, February 16, 1973. 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

(OVER)

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 22, 1973, in cash or other immediately available funds or in a like face amount of Treasury bills maturing February 22, 1973. 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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FOR IMMEDIATE RELEASE February 9, 1973

RESULTS OF TREASURY EXCHANGE OFFERING

The Treasury announced today that $2.5 billion of the $4.7 billion of notes held by the general public maturing February 15, 1973, have been exchanged for the new 6-1/2% notes leaving $2.2 billion or 47.4 % unexchanged. Federal Reserve Banks and Government accounts exchanged $1.4 billion of notes held by them for the new 6-1/2% notes.

Details of the exchange are as follows (amounts in millions):

	ELIGIBLE FOR EXCHANGE		EXCHANGED		
Security	FRB's and Govt. Accts.	General Public	FRB's and Govt. Accts.	General Public	Total
6-1/2% notes	$ 158	$2,356	$ 122	$1,309	$1,431
4-7/8% notes	1,281	2,391	1,270	1,189	2,459
GRAND TOTAL	$1,439	$4,747	$1,392	$2,498	$3,890

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FOR IMMEDIATE RELEASE February 12, 1973

JAMES W. DONLEY TO LEAVE TREASURY POST

Secretary of the Treasury George P. Shultz today accepted "with deep personal regret" the resignation of James W. Donley as Special Assistant to the Secretary for Public Affairs. The resignation is effective March 1.

On that date Mr. Donley will become President of Fred Rosen Associates, Inc., of New York City, a corporate and financial public relations firm which serves major banking and corporate clients in the U.S. and abroad.

"We have been through an exciting era of economic history together and during these important times I have valued your help in communicating administration policy to the public. Your friendly, but professional, relationship with the financial and economic press has helped improve the accuracy and understanding of national and international economic news," Secretary Shultz said in a letter to Mr. Donley.

Former Treasury Secretary John B. Connally brought Donley to Washington in March 1972. At that time he was vice president of a New York public relations agency representing major corporations and banks. Donley, 38, previously had been assistant to the publisher of Time magazine. He has a masters degree in international business from the Wharton School of Finance and Commerce, and a BA in economics from Denison University in his home state of Ohio. Donley returns with his wife and two children to their home in Greenwich, Connecticut.

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THE SECRETARY OF THE TREASURY
WASHINGTON 20220

February 9, 1973

Dear Jim:

I accept, with deep personal regret, your resignation as my Special Assistant for Public Affairs, effective March 1.

We have been through an exciting era of economic history together and during these important times I have valued your help in communicating administration policy to the public. Your friendly, but professional, relationship with the financial and economic press has helped improve the accuracy and understanding of national and international economic news.

Although you have been with us only one year, you have made your mark and I hope you will continue to help us as a member of the distinguished Treasury alumni.

Sincerely yours,

George

George P. Shultz

Mr. James W. Donley
Special Assistant to the Secretary
for Public Affairs
U. S. Treasury Department
Washington, D.C. 20220

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

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ATTENTION: FINANCIAL EDITOR

FOR RELEASE 6:30 P.M. February 9, 1973

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 16, 1972 , and the other series to be dated February 15, 1973 , which were invited on February 2, 1973, 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 17, 1973		182-day Treasury bills maturing August 16, 1973	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv. Annual Rate
High	98.647	5.353%	97.182 a/	5.574%
Low	98.617	5.471%	97.140	5.657%
Average	98.629	5.424% 1/	97.157	5.624% 1/

a/ Excepting one tender of $500,000
54% of the amount of 91-day bills bid for at the low price was accepted
76% 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	$ 43,425,000	$ 8,425,000	$ 47,615,000	$ 12,615,000
New York	2,834,820,000	1,885,920,000	2,578,920,000	1,488,640,000
Philadelphia	14,140,000	14,140,000	4,195,000	4,195,000
Cleveland	20,500,000	20,500,000	9,320,000	9,320,000
Richmond	6,195,000	6,195,000	2,355,000	2,355,000
Atlanta	23,995,000	23,995,000	14,245,000	9,245,000
Chicago	283,070,000	208,870,000	228,085,000	96,845,000
St. Louis	37,215,000	34,215,000	24,005,000	14,265,000
Minneapolis	35,275,000	35,275,000	33,140,000	33,140,000
Kansas City	26,485,000	16,485,000	19,695,000	9,695,000
Dallas	37,850,000	24,850,000	38,430,000	10,430,000
San Francisco	147,670,000	121,210,000	164,360,000	109,360,000
TOTALS	$3,510,640,000	$2,400,080,000 b/	$3,164,365,000	$1,800,105,000 c/

b/ Includes $164,000,000 noncompetitive tenders accepted at the average price of 98.629
c/ Includes $ 70,485,000 noncompetitive tenders accepted at the average price of 97.157
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 5.58 % for the 91-day bills, and 5.87% for the 182-day bills.

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FOR IMMEDIATE RELEASE Feb. 10, 1973

A spokesman for the U.S. Treasury today issued the following statement:

Under instructions from the President and in constant communication with the Secretary of the Treasury, Mr. Paul A. Volcker, Under Secretary for Monetary Affairs for the U.S. Treasury is conferring with authorities of other nations on recent developments in the foreign exchange markets.

Mr. Volcker left Washington on the afternoon of Wednesday, February 7th. Thus far he has held conversations in Tokyo, Bonn and London. He will soon be enroute to Paris.

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FOR IMMEDIATE RELEASE Feb. 12, 1973

A Treasury Department spokesman said today that Paul A. Volcker, Under Secretary for Monetary Affairs, flew today to Bonn, West Germany, from Paris. He is holding discusssions with Takashi Hosomi, Special Adviser to the Minister of Finance of Japan.

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Mr. Volcker remains in constant contact with the Secretary of the Treasury.

(Despite published reports, he is not reporting directly to the President.)

He left Washington Wednesday, Feb. 7. So far he has visited Tokyo, Bonn,London, Rome and Paris for conversations on recent foreign excha ge market developments.

We have no further comment.

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

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FOR IMMEDIATE RELEASE FEBRUARY 12, 1973

JOSEPH LOFTUS JOINS TREASURY DEPARTMENT

Secretary of the Treasury George P. Shultz announced today the appointment of Joseph A. Loftus as Special Consultant to the Secretary.

Mr. Loftus will work on special assignments from Secretary Shultz and in co-operation with the Special Assistant to the Secretary for Public Affairs, James W. Donley, and with Mr. Donley's successor, who will be designated soon. Mr. Donley announced his resignation today, effective March 1.

Mr. Loftus, a member of the NEW YORK TIMES Washington Bureau for 25 years, joined the Labor Department four years ago as Special Assistant to the Secretary for Communications. The Secretary of Labor at that time was Mr. Shultz.

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UNITED STATES SAVINGS BONDS ISSUED AND REDEEMED THROUGH January 31, 1973

(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	29,497	23	.08
Series J and K-1952 thru 1957	3,754	3,745	8	.21
UNMATURED				
Series E 3/ :				
1941	1,920	1,730	189	9.84
1942	8,470	7,625	845	9.98
1943	13,609	12,283	1,326	9.74
1944	15,888	14,265	1,623	10.22
1945	12,509	11,085	1,424	11.38
1946	5,701	4,895	806	14.14
1947	5,433	4,532	901	16.58
1948	5,632	4,620	1,011	17.95
1949	5,587	4,506	1,081	19.35
1950	4,901	3,901	1,000	20.40
1951	4,239	3,374	866	20.43
1952	4,444	3,513	931	20.95
1953	5,085	3,941	1,144	22.50
1954	5,184	3,965	1,220	23.53
1955	5,403	4,091	1,312	24.28
1956	5,224	3,922	1,302	24.92
1957	4,928	3,651	1,277	25.91
1958	4,821	3,476	1,346	27.92
1959	4,524	3,223	1,301	28.76
1960	4,550	3,148	1,402	30.81
1961	4,637	3,084	1,553	33.49
1962	4,509	2,911	1,598	35.44
1963	5,064	3,067	1,997	39.44
1964	4,936	2,995	1,940	39.30
1965	4,816	2,887	1,929	40.05
1966	5,183	2,991	2,192	42.29
1967	5,129	2,924	2,205	42.99
1968	4,870	2,734	2,137	43.88
1969	4,579	2,431	2,148	46.91
1970	4,789	2,229	2,560	53.46
1971	5,506	2,055	3,451	62.68
1972	5,479	1,147	4,332	79.07
Unclassified	408	405	3	.74
Total Series E	187,957	137,605	50,352	26.79
Series H (1952 thru May, 1959) 3/	5,485	3,933	1,551	28.28
H (June, 1959 thru 1972)	8,830	2,894	5,897	66.78
Total Series H	14,315	6,827	7,488	52.31
Total Series E and H	202,272	144,432	57,840	28.60
All Series – Total matured	38,278	38,240	36	.09
All Series – Total unmatured	202,272	144,432	57,840	28.60
All Series – Grand Total	240,550	182,672	57,876	24.06

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 3812 (Rev. Feb. 1972) – Dept. of the Treasury – Bureau of the Public Debt

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FOR IMMEDIATE RELEASE February 12, 1973

DAVID MOSSO NAMED DEPUTY FISCAL ASSISTANT SECRETARY

Secretary of the Treasury George P. Shultz today announced the appointment of David Mosso, a Treasury career official, as Deputy Fiscal Assistant Secretary of the Treasury. He succeeds Sidney S. Sokol, who retired on February 3, 1973.

Mr. Mosso began his Federal career in 1955 in Treasury's Bureau of Accounts as a staff assistant in the former Division of Central Reports. He was appointed head of that office in 1964 and became Deputy Commissioner of the Bureau in 1965. Since February 1971 he has served as Commissioner of Accounts, and he will continue those duties along with his new assignment.

Mr. Mosso, 46, was born in Pasadena, California, and spent his early years in Kansas. He holds a Bachelor's degree, magna cum laude, in business administration from Washburn University, Topeka, Kansas, and a Master's degree in economics from the University of Minnesota. Prior to joining the Treasury he was an instructor in accounting and economics at Washburn. He is also a Certified Public Accountant in the State of Virginia.

Mr. Mosso has been honored with the Department's awards for Meritorious Service and Exceptional Service, the American Institute of Certified Public Accountants' Elijah Watts Sells Award, and election to Phi Kappa Phi honor society.

He is married to the former Lee Pierce of Richmond, Virginia. They have three children, Jan, Andrew and Jocelyn, and reside in Springfield, Virginia.

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THE DEPARTMENT OF THE TREASURY 1789

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February 12, 1973

FOR IMMEDIATE RELEASE

STATEMENT ON FOREIGN ECONOMIC POLICY
BY
SECRETARY OF THE TREASURY GEORGE P. SHULTZ

The United States, as do other nations, recognizes the need to reform and strengthen the framework for international trade and investment. That framework must support our basic objective of enhancing the living standards of all nations. It must encourage the peaceful competition that underlies economic progress and efficiency. It must provide scope for each nation -- while sharing in the mutual benefits of trade -- to respect its own institutions and its own particular needs. It must incorporate the fundamental truth that prosperity of one nation should not be sought at the expense of another.

This great task of reform is not for one country alone, nor can it be achieved in a single step. We can take satisfaction in what has been accomplished on a cooperative basis since the actions announced on August 15, 1971 clearly signaled our recognition of the need for decisive change.

-- Intense negotiations established an important fact in December 1971: mutual agreement can be reached on changes in the pattern of world exchange rates, including the parity of the United States dollar, in order to promote the agreed goal of a better balance in international trade and payments.

-- Monetary negotiations have been started by the "Committee of Twenty" on the premise that better ways must be found to prevent large payments imbalances which distort national economies, disturb financial markets, and threaten the free flow of trade. The United States has made practical and specific proposals for international monetary reform.

-- The groundwork is being laid for comprehensive trade negotiations. Those negotiations should look beyond industrial tariffs to encompass also other

barriers to the free flow of goods. They should assure fair competitive treatment of the products of all countries. They should also seek agreed ways of avoiding abrupt dislocations of workers and businesses.

In September 1972 the President told the financial leaders of the world that "The time has come for action across the entire front of international economic problems. Recurring monetary crises, such as we have experienced all too often in the past decade; unfair currency alignments and trading arrangements, which put the workers of one nation at a disadvantage with workers of another nation; great disparities in development that breed resentment; a monetary system that makes no provision for the realities of the present and the needs of the future -- all these not only injure our economies, they also create political tensions that subvert the cause of peace."

At the same meeting, I outlined the principles of a monetary system that would enable all nations, including the United States, to achieve and maintain overall balance in their international payments. Those principles would promote prompt adjustment and would provide equitable treatment for all nations -- large and small, rich and poor.

Yet, in recent months we have seen disquieting signs. Our own trade has continued in serious deficit, weakening our external financial position. Other nations have been slow in eliminating their excessive surpluses, thereby contributing to uncertainty and instability. In recent days, currency disturbances have rocked world exchange markets. Under the pressure of events, some countries have responded with added restrictions, dangerously moving away from the basic objectives we seek.

Progress in the work of the Committee of Twenty has been too slow and should move with a greater sense of urgency. The time has come to give renewed impetus to our efforts in behalf of a stronger international economic order.

To that end, in consultation with our trading partners and in keeping with the basic principles of our proposals for monetary reform, we are taking a series of actions designed to achieve three interrelated purposes:

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(a) to speed improvement of our trade and payments position in a manner that will support our effort to achieve constructive reform of the monetary system;

(b) to lay the legislative groundwork for broad and outward-looking trade negotiations, paralleling our efforts to strengthen the monetary system; and

(c) to assure that American workers and American businessmen are treated equitably in our trading relationships.

For these purposes:

First, the President is requesting that the Congress authorize a further realignment of exchange rates. This objective will be sought by a formal 10 percent reduction in the par value of the dollar from 0.92106 SDR to the dollar to 0.82895 SDR to the dollar.

Although this action will, under the existing Articles of Agreement of the International Monetary Fund, result in a change in the official relationship of the dollar to gold, I should like to stress that this technical change has no practical significance. The market price of gold in recent years has diverged widely from the official price, and under these conditions gold has not been transferred to any significant degree among international monetary authorities. We remain strongly of the opinion that orderly arrangements must be negotiated to facilitate the continuing reduction of the role of gold in international monetary affairs.

Consultations with our leading trading partners in Europe assure me that the proposed change in the par value of the dollar is acceptable to them, and will therefore be effective immediately in exchange rates for the dollar in international markets. The dollar will decline in value by about 10 percent in terms of those currencies for which there is an effective par value, for example the Deutsche mark and the French franc.

Japanese authorities have indicated that the yen will be permitted to float. Our firm expectation is that the yen will float into a relationship vis-a-vis other currencies consistent with achieving a balance of payments equilibrium not dependent upon significant government intervention.

These changes are intended to supplement and work in the same direction as the changes accomplished in the Smithsonian Agreement of December 1971. They take into account recent developments and are designed to speed improvement in our trade and payments position. In particular, they are designed, together with appropriate trade liberalization, to correct the major payments imbalance between Japan and the United States which has persisted in the past year.

Other countries may also propose changes in their par values or central rates to the International Monetary Fund. We will support all changes that seem warranted on the basis of current and prospective payments imbalances, but plan to vote against any changes that are inappropriate.

We have learned that time must pass before new exchange relationships modify established patterns of trade and capital flows. However, there can be no doubt we have achieved a major improvement in the competitive position of American workers and American business.

The new exchange rates being established at this time represent a reasonable estimate of the relationships which -- taken together with appropriate measures for the removal of existing trade and investment restraints -- will in time move international economic relationships into sustainable equilibrium. We have, however, undertaken no obligations for the U.S. Government to intervene in foreign exchange markets.

Second, the President has decided to send shortly to the Congress proposals for comprehensive trade legislation. Prior to submitting that legislation, intensive consultations will be held with Members of Congress, labor, agriculture, and business to assure that the legislation reflects our needs as fully as possible.

This legislation, among other things, should furnish the tools we need to:

(i) provide for lowering tariff and non-tariff barriers to trade, assuming our trading partners are willing to participate fully with us in that process;

(ii) provide for raising tariffs when such action would contribute to arrangements assuring that American exports have fair access to foreign markets;

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(iii) provide safeguards against the disruption of particular markets and production from rapid changes in foreign trade; and

(iv) protect our external position from large and persistent deficits.

In preparing this legislation, the President is particularly concerned that, however efficient our workers and businesses, and however exchange rates might be altered, American producers be treated fairly and that they have equitable access to foreign markets. Too often, we have been shut out by a web of administrative barriers and controls. Moreover, the rules governing trading relationships have, in many instances, become obsolete and, like our international monetary rules, need extensive reform.

We cannot be faced with insuperable barriers to our exports and yet simultaneously be expected to end our deficit.

At the same time, we must recognize that in some areas the United States, too, can be cited for its barriers to trade. The best way to deal with these barriers on both sides is to remove them. We shall bargain hard to that end. I am convinced the American workers and the American consumer will be the beneficiaries.

In proposing this legislation, the President recognizes that the choice we face will not lie between greater freedom and the status quo. Our trade position must be improved. If we cannot accomplish that objective in a framework of freer and fairer trade, the pressures to retreat inward will be intense.

We must avoid that risk, for it is the road to international recrimination, isolation, and autarky.

Third, in coordination with the Secretary of Commerce, we shall phase out the Interest Equalization Tax and the controls of the Office of Foreign Direct Investment. Both controls will be terminated at the latest by December 31, 1974.

I am advised that the Federal Reserve Board will consider comparable steps for their Voluntary Foreign Credit Restraint Program.

The phasing out of these restraints is appropriate in view of the improvement which will be brought to our underlying payments position by the cumulative effect of the exchange rate changes, by continued success in curbing inflationary tendencies, and by the attractiveness of the U.S. economy for investors from abroad. The termination of the restraints on capital flows is appropriate in the light of our broad objective of reducing governmental controls on private transactions.

The measures I have announced today -- the realignment of currency values, the proposed new trade legislation, and the termination of U.S. controls on capital movements -- will serve to move our economy and the world economy closer to conditions of international equilibrium in a context of competitive freedom. They will accelerate the pace of successful monetary and trade reform.

They are not intended to, and cannot, substitute for effective management of our domestic economy. The discipline of budgetary and monetary restraint and effective wage-price stabilization must and will be pursued with full vigor. We have proposed a budget which will avoid a revival of inflationary pressure in the United States. We again call upon the Congress, because of our international financial requirement as well as for the sake of economic stability at home, to assist in keeping Federal expenditures within the limits of the President's budget. We are continuing a strong system of price and wage controls. Recent international economic developments reemphasize the need to administer these controls in a way that will further reduce the rate of inflation. We are determined to do that.

The cooperation of our principal trading and financial partners in developing a joint solution to the acute difficulties of the last few days has been heartening. We now call upon them to join with us in moving more rapidly to a more efficient international monetary system and to a more equitable and freer world trading system so that we can make adjustments in the future without crises and so that all of our people can enjoy the maximum benefits of exchange among us.

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DEPARTMENT OF THE TREASURY

STATEMENT OF

THE HONORABLE GEORGE P. SHULTZ

SECRETARY OF THE TREASURY

ACCOMPANIED BY:

William P. Rogers
Secretary of State

Arthur Burns
Chairman, Federal Reserve System

Herbert Stein
Council of Economic Advisors

Peter Flanigan
Executive Office of the President

William E. Simon
Deputy Secretary of the Treasury

Jack Bennett
Deputy Under-Secretary of Monetary Affairs

Room 4121
Department of the Treasury
Washington, D. C.

Monday, February 12, 1973
10:50 o'clock, p.m.

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SECRETARY SHULTZ: I'm announcing this evening a series of major steps, which we believe will be of definite benefit to the American workingman, the American businessman, and the American consumer.

I want, first, to say a word about the procedure involved here in the negotiations that we have been through so that people understand it's a little different from most.

We have had a small, sort of a policy group, you might say, consisting of myself and the gentlemen here on my left and back here. We have met quite frequently over an extended period of time, and more frequently than we might have cared to otherwise in the last week or so.

We have met individually and in varying groups with the President. I have met myself with the President a number of times on this subject. The Secretary of State has. Dr. Burns and I have had meetings with the President on it, and Mr. Stein, Mr. Flanigan and the Troika have done so.

We have had kind of a procedure here where we had our negotiator, and we really should have a great big picture of Paul Volcker here. He is in Bonn, and pretty soon will get in an airplane and come home. He'll be here tomorrow morning.

But, we have had our negotiator out and traveling around from one capital to another as you have been kept advised. And he has had instructions from the President that were developed by this group, and then taken to the President and worked out.

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Then, as he has proceeded and as we have gathered information from the governments we were talking with, we have sifted those in our group and discussed them back and forth with the President, and he has made additional decisions as we have gone along.

I would say the basic decision on what we would go forward with, in terms of our own plans, the President made along about last Tuesday; and then the final decision on what we would finally go forward with in the light of all the things that other people had to say, the President made this morning after a discussion I had with him on the telephone. So that is our procedure.

Now, I think our approach here has been, in this crisis, to see how we might use the crisis as an opportunity, and I believe that we have. It is an opportunity to do something that will be of benefit to the worker, to our businesses; an opportunity to do something that will move us toward equilibrium in international accounts, and an opportunity to do something that is fundamentally consistent with the principles that we laid out at the IMF last September.

So we have had all of these things in mind in trying to get something constructive out of the sense of crisis that has taken place here.

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Now, as you know becuase you have seen this statement, there are in a sense three things being announced: first, a set of exchange rate changes that start with a ten percent change, that derives from a ten percent reduction or devaluation of the dollar.

We have additionally a float by the Japanese, and we believe that market forces will carry the dollar-yen relationship into a larger change than the change our devaluation action will achieve with respect to major European currencies.

So over all, we have a major exchange rate realignment that we think will benefit our international accounts and our position in world trade.

I might note, also, it is in the statement, that the U.S. has undertaken no obligation for intervention in foreign exchange markets.

Second, as you remember in the IMF proposals, we put forward the notion that you cannot expect the exchange rate system to carry the full load of adjustment. We think we need to be better equipped as a country in terms of our ability to deal with trade matters.

And so, the President is announcing today his intention to seek additional trade authority from the Congress, and the categories, some of the categories in which we will be working are laid out in the statement that you have.

But we want to have a greater ability to negotiate flexibly and effectively on trade matters. And the President will make a final decision on what he will ask for after we have had a wide process of consultation in the Congress, and with business and with labor and agriculture, and other groups.

Finally, also consistent with our approach in the IMF speech in which we said it is desirable to reduce as much as possible the impact of controls, we will phase out our capital controls, which are controls on the export of capital by the end of December, 1974, by then or before.

So, these are three inter-related sets of actions and proposals that the President has decided on which, as I say, I think will yield a better deal for the American workingman and businessman in world markets.

Well, I will be glad to take questions.

Secretary Rogers, do you have anything additional to say?

Peter, Arthur, Herb, Bill or Jack?

(No response)

QUESTION: Mr. Secretary, always in devaluations there are two percentages. Last year it was 7.89 and 8.57. What is the other percentage in this case?

SECRETARY SHULTZ: You mean depending upon how you compute it and how it's worked?

QUESTION: Yes, whether you look at it from the outside or the inside.

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QUESTION: Do you know how much it will add to living costs, Mr. Secretary?

SECRETARY SHULTZ: Oh, it is very difficult to make an estimate of that sort, and of course it depends a lot on how successful we are in achieving the budget results that the President has laid out, and how successful we are in making Phase III work as well as we believe it can work.

So, I think it's a very difficult kind of estimate.

QUESTION: Mr. Secretary, would you repeat what you said about the yen before? I didn't understand. Is the yen to go down ten percent before a float starts?

What was the 277 figure?

SECRETARY SHULTZ: Well, we start with a devaluation of ten percent.

QUESTION: Of the yen?

SECRETARY SHULTZ: Of the dollar.

QUESTION: Of the dollar.

(General laughter)

QUESTION: But are you anticipating, at a minimum, an equal revaluation of the yen to the ten percent? That's what I'm trying to get to.

SECRETARY SHULTZ: We anticipate that market forces will carry the dollar-yen relationship into a larger change, net change, than our action will achieve with respect to major European currencies.

QUESTION: Mr. Secretary, do you anticipate --

SECRETARY SHULTZ: But since it is a float, we don't know precisely what that will amount to, but we expect it to be larger than the impact of the ten percent devaluation with respect to the Deutsche mark.

QUESTION: What is your understanding or expectation on the three major floating currencies: the Canadian dollar, the British pound, and the Swiss franc?

And also, what is your understanding or expectation on the two-tiered markets in Europe?

SECRETARY SHULTZ: Well, we expect, as we understand it, and of course other countries will announce what they do -- we do not announce what they do -- but I think it is probable that those who are floating will continue to float.

QUESTION: Mr. Secretary, how long do you expect that Japan will float the yen?

SECRETARY SHULTZ: Pardon me?

QUESTION: How long to you anticipate that Japan will float the yen?

SECRETARY SHULTZ: Well, that is a question you will have to ask the Japanese.

What we know is that they will float the yen. How long that will take place remains to be seen.

QUESTION: Mr. Secretary, did you try to get an up valuation of the mark as part of this exercise?

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SECRETARY SHULTZ: Well, we worked around a lot of ideas, and we have come out with a result that we think is a good one under all of the circumstances. And we feel that this is a good result, and I don't think it particularly serves any purpose in going over what might or might not have happened.

QUESTION: What will happen when Congress comes back, and you get legislative approval of this, Mr. Secretary?

SECRETARY SHULTZ: I think it's very likely exchange markets will reflect this announcement quickly and, at the same time, we will go up for legislation as soon as Congress returns.

QUESTION: When will the exchange markets open?

SECRETARY SHULTZ: Well, ours will open tomorrow.

And others -- what will happen in other countries, I am not certain. Some of those have been closed, and some may be closed tomorrow. I'm not sure about that.

(More)

QUESTION: What do you expect from the phasing out of the controls in terms of the balance of payments?

SECRETARY SHULTZ: Well, that again is hard to estimate. I think one can question what sort of the stable state impact of those controls is at this stage.

There is a problem of loans abroad, that might be brought here in large quantities that one has to think about as a phase-out type of problem. And at the same time, I think we may very well have an impact on the flow of funds into the United States, once we establish the fact that money that's here is not going to be restricted and going out again. So, this is again a complicated thing to estimate, but we think the net benefits will be good for us in the long run.

QUESTION: Mr. Secretary, do you anticipate any changes in central rates or par values of any European currencies?

SECRETARY SHULTZ: We have no basis for anticipating that, but again, other countries will have to speak for themselves.

QUESTION: But you did say that the three that are floating, which includes Canada, you will anticipate floating...

SECRETARY SHULTZ: That would be my expectation, that they will continue floating, but they will have to speak for themselves -- I don't intend to try to speak for them.

QUESTION: What about the two-tier systems of Europe? Are those going to be phased out, or are they going to remain in force?

SECRETARY SHULTZ: Again, these countries will have to speak for themselves and make their own statements about various controls on the capital movements, and on the two-tier system.

QUESTION: Mr. Secretary, you indicate in your statement that you'd like gold to be phased out of the international monetary system. Isn't increasing or devaluing the dollar against gold counterproductive in that sense?

SECRETARY SHULTZ: Not particularly. This is really a kind of a mechanical adjustment as we see it, and we have stated our view on this matter many times.

We state it here again just so that people who might get the impression that you stated will be disabused of it and we wanted to put it right in there.

QUESTION: Mr. Secretary, can we expect some kind of international conference, which might make an adjustment,

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readjustment, something like a Smithsonian Conference?

SECRETARY SHULTZ: We have, I think basically got an agreement on this particular set of exchange rate changes, and we don't need a conference in order to do it. It's been done with the cooperation of various people, and at considerable loss of sleep by many, particularly Mr. Volcker. But that has been done.

Now, I think that one of the things that comes out of this, and is dramatized by this, and it has been interesting to me in the conversations and messages and so forth that have gone back and forth, is how this has come out.

The realization is that it is important to get on with the task of basic reform of the international monetary system. And I think that again in the spirit of trying to make an opportunity out of a crisis, that others have realized this.

We have pointed it up and brought it up, and I think we will get a little more rapid movement on this as a result of this crisis. People are aware that all is not well, and that we need to do things to repair this system.

So there will be meetings of that kind, but we don't need a meeting in the Smithsonian in order to confirm these changes. They have essentially been worked out.

QUESTION: Mr. Secretary, will we be here a year from now to hear the same kind of announcement of ten percent, five percent? Is the dollar just plunging?

SECRETARY SHULTZ: I think the basic fact about the dollar is that we have a large, diverse, strong economy that is expanding. It is healthy.

We have our problems with inflation. We seem to be doing better with them than most of our other trading partners. And so I think the outlook is fundamentally strong.

On the other hand, we have a great disequilibri in trade and balance of payments accounts, and we feel this is a step and a strong step in curing them.

We feel that the negotiations for change in th basic system will be -- are very important and helpful. And so, we are moving in the right direction.

And where we will be a year from now, I would guess we will have to wait a while to see.

QUESTION: Mr. Secretary, in relation to -- specifically in relation to Canada, there is no mention in here of Canada, and it is floating its currency.

Do you have any particular objectives in mind with trade relationships with Canada that you would like to pursue?

SECRETARY SHULTZ: Well, I have talked with th Minister of Finance, Mr. John Turner, at least twice during these discussions. And again, Canada will announ its own course of action with respect to the exchange rates.

But I believe he did say, in Parliament today, that they expected to continue to float. But just what on that they may add is up to them.

We have felt that there are a number of things in the trade picture with Canada that should be straightened out and changed and improved, and we will continue to work at that. But that is essentially -- those are things that we have been talking about for some time. There is nothing particularly new there.

VOICE: Thank you, Mr. Secretary.

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FOR RELEASE ON DELIVERY

REMARKS OF DR. H. I. LIEBLING
DEPUTY DIRECTOR, OFFICE OF FINANCIAL ANALYSIS,
OFFICE OF THE SECRETARY, THE DEPARTMENT OF THE TREASURY,
AT THE ECONOMIC OUTLOOK LUNCHEON SPONSORED BY
SECURITY ANALYSTS OF SAN FRANCISCO
AND THE NATIONAL ASSOCIATION OF BUSINESS ECONOMISTS
THURSDAY, FEBRUARY 15, 1973, 12:15 P.M.

THE RE-ENTRY PROBLEM

The country now is enjoying the benefits and disquietudes of a new prospect: re-entry into the zone of its potential of economic growth and employment. It has its pleasures and its pains.

That may not be news -- and, indeed, to some it remains not even an acceptable evaluation because it is considered too buoyant a view of 1973 prospects. There are some die-hard pessimists, and there are also some who are restrained in their expectations -- those who cluster at the 6% real growth rate for 1973. By and large, however, the challenge of the problem of re-entry is widely accepted by policy formulators, in and out of power. Except for a small minority, proposals for meeting the re-entry problem now only differ with respect to the proper mix of pleasure and pain.

That is a happy circumstance -- because at least the problem has been defined and it arises from a consensus that the economy in 1973 will be vigorous. Now, Government forecasts of the economy's prospects have not always been accepted nor have they been generally validated. As a career forecaster at the Treasury in several administrations, I have watched the birth of many forecasts, frequently waving a paper containing a minority view because I did not wish to be known as the suspected parent.

In former years, the slant in these projections appeared to be nearly always toward underestimating the strength of the economy -- presumably registering the ultimate consequences of the learning experience of ex-graduate students in economics, who since have evolved into public officials, but who remain influenced by the stagnationist theories taught by professors in the late 1930s and 1940s. Thus, we find that in the official GNP forecasts appearing in the Economic Report of the President for the years 1962-69, the forecast error nearly always was below the "actual." On the average, the forecast underestimate of GNP was close to 1%. This translates into a magnitude of error of nearly $12 billion at current levels of GNP. That is not a good performance -- although it is not absolutely abysmal.

Since that time, the official GNP forecasts have tended to be too high -- averaging 1% above so-called "actuals" for 1970 and 1971. That, too, may have been part of some systematic malady of economic theory, but the facts show that it was quickly cured. In August 1971, policies for robust growth of the economy were set in place. They succeeded. And while the forecast for 1972 was quite optimistic, it also was very much on target -- whether judged in terms of nominal GNP growth, real growth or unemployment rates. And I might say, as one who participated in its preparation, that the forecast was developed substantially free of the usual biases that I have sometimes encountered over the years.

It is against that background that the official economic outlook for 1973 merits more than the usual standard of acceptance. Its recognition of the re-entry problem provides the framework underlying the decisions made in the Budget, as well as the general policy stance provided in the Economic Report.

That economic outlook for 1973 contains the following highlights with which you might be familiar by now:

- A 10% rise in current dollar GNP.

- A 6-3/4% real growth rate.

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• A drop in the unemployment rate to 4-1/2% by the end of the year.

• An inflation rate -- as measured by the GNP deflator -- of 3% (which has caused some head-wagging and on which I will comment subsequently).

These projections already include the hard decisions now in the Budget. But, I would emphasize that they were made in recognition that the economy was proceeding at a full head of steam which was developing in the private sector of the economy and that this energy would provide momentum throughout 1973. Those private sector forces would be:

• A capital goods boom. It was not generally recognized until recently that such a boom was in progress. With each succeeding quarter in 1972, outlays appeared to fall below survey expectations and this led to some less than buoyant forecasts. But, the shortfall of outlays from anticipations should be viewed as laying the basis for greater expansion in 1973 -- and perhaps beyond. The shortfall was reflecting not so much deficiencies from the demand side but supply problems. The expectation for 1973 is that business fixed investment will advance some $17 billion or so -- a rise of 14% -- and it could be more. Even a 14% gain would be comparable to that in 1972 -- and would represent the largest advance back to 1966, when it also was 14%.

• Strong housing activity. Even if starts begin to tail down in 1973, a large gap has developed between rates of starts and completions. In terms of dollars and employment requirements, construction activity will sustain economic activity in 1973 -- and perhaps more than the slight rise that is implicit in the official projection.

That is supported by the financial aspects. Even if interest rates rise and saving flows to mortgage granting institutions taper from now heavy rates, the volume of outstanding mortgage commitments is very large -- at S&Ls, $11 billion at the end of 1972, or $4 billion more than a year earlier. This will more than offset any decline from Federal subsidized housing -- and even that will not be developing very soon.

• Rising state and local government outlays -- up 12%, compared with 10% in 1972.

• Buoyant consumer spending. The surveys of consumer intentions -- including last week's Commerce report -- indicate considerable confidence on the outlook. Beyond these opinion surveys, it is the hard, nearly certain, prospect that disposable incomes will be rising 10%, much more than the 7% rise in 1972. Of course, much of the 1973 acceleration will be due to refunds of overwithheld taxes, but not all. Incidentally, the consumer spending projection would have been larger, if the greater part of the refunds had not been assumed as being saved. So, here again, the forecast might be on the conservative side.

• Rising inventory investment -- first to keep pace with the advance in final sales, as well as to restore what appears to have been a lower-than-usual relationship to sales.

All this adds up to a very strong pressure on the resources in the economy -- even before taking into account the balance of expenditures and receipts in the <u>Budget</u>. The strength of these forces, aided by a stimulative budget in 1972, already had narrowed the gap below potential economic growth. Recognizing the difficulty of this concept, it still may be useful to say that the gap was cut in half between mid-1971 through the last quarter of 1972 -- reducing it to 3% below potential.

<u>If the official projection for 1973 is realized, the gap would narrow to 1-1/2% below potential by year-end</u>.

This is the essence of the re-entry problem. The pleasure of it is that it promises to stimulate growth and reduce unemployment substantially; the pain of it is the fiscal and monetary discipline that is required to prevent an unacceptable rate of inflation which, in its absence during 1966-68, provided us with a legacy from which we have not yet completely recovered.

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It is to seek some balance of pleasure and pain toward which the 1973 and 1974 Budgets were directed. They were intended to provide restraint -- but not to the degree that they would become deterrents for continued expansion. The rough outlines of the Budget are known to you -- in summary, they involve spending advances of $18 billion and $19 billion for fiscal years 1973 and 1974 and deficits of $25 billion and $13 billion, respectively, on the unified basis.

Now, some will say that, if we are approaching the re-entry zone, spending advances might have been curtailed more. In fact, big cuts have been made, despite the huge volume of so-called uncontrollables, to the point where much of the public believes that the budget total has declined rather than increased.

The basic posture of the Budget <u>is</u> one of restraint -- whether it is evaluated on the basis of the unified budget basis, where the deficit is halved, or the basis of the NIA budget, where the evidence appears even more compelling.

<u>Impact on financial markets</u>

The present turbulence on the international exchanges is not a very propitious time to draw conclusions on the impact of a given level of economic activity on financial markets. While it is hazardous to do so against that perspective, the following points might be made:

- With so buoyant a view of the economic outlook in 1973, it is clear that a huge volume of credit will be required to finance economic activity. I do not underestimate its impact. Indeed, if some of the uncertainties of the forecast regarding business and consumer spending are resolved on the higher side -- a possibility I did not exclude -- credit requirements would be even larger.

- Financial markets already have reacted. Treasury bill rates are slightly above 5-1/2% and now are close to the highest levels in more than two years. But this was surely to have been expected in a strongly expanding economy.

On the other hand, long rates have been remarkably stable since late 1970, except for a temporary flurry in mid-1971. That stability has reflected the continued wringing out of the inflationary premium which had been going into these rates. <u>Accordingly, the future course of these rates again will depend on how diligent our efforts are in making a success of the fight against inflation</u>.

- With the budget in its present posture, there is much more room for appropriate monetary policy. Anyway, since the forecast of GNP growth for fourth-quarter 1972 to fourth-quarter 1973 is 9%, there would appear to be some room for a slowing in money supply growth without significant repercussions.

- The next few months might witness some pressures in money markets, but this will be a temporary phase, as far as Treasury financing goes. The Treasury will need to raise about $8 billion by mid-April. After that, the Treasury will be in a roughly balanced position or better in the rest of fiscal 1973. Cash needs will then arise, but, of course, FY 1974 deficit has been halved.

- Rates remain well below the levels reached in the so-called money crunch of 1969 and 1970. It would be a mistake to base a forecast of money markets on the influence of temporary and transient events, such as the current international turbulence.

I leave you with the thought that the pleasures and pains of the re-entry problem have their interface in financial markets.

A favorable outcome for Phase III and fiscal discipline would appear to be the keys to success for re-entry.

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FOR RELEASE AT 7:30 P.M., CST

Remarks by the Honorable William E. Simon,
Deputy Secretary of the Treasury
Before the Opportunities Industrialization
Centers Industries Day Banquet
Dallas, Texas, February 20, 1973
7:30 P.M. CST

George Shultz, the Secretary of the Treasury, is deeply honored to be the recipient of the First Annual George Champion Award. And I am equally honored to accept it tonight on his behalf. He asked me to convey to you his sincere thanks -- and his regret that his heavy schedule did not permit him to be here to thank you in person.

You who have created, and implemented, Opportunities Industrialization Centers of America have reason to be proud. Proud, because you have focused new light on a basic American principle in more than 100 cities. Proud, because you have extended the understanding of advancement through self-help, an ethic which has contributed so much to our becoming a free and independent nation.

The OIC's deserve high commendation for having made training available to 100,000 citizens who might otherwise have been deprived. The fact is, more than 70 per-cent of those you trained have found and kept good jobs. These people are a living tribute to the success of your efforts, a tribute which I am sure you find rewarding.

Since it is your purpose to present the George Champion Award to one who exemplifies support of the self-help principles inherent in our free enterprise system, may I say that I believe your choice of George Shultz was a great one?

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He has always been sensitive to the need for jobs, and the need for trained workers to man those jobs. When he was an educator, he kept his finger on the American pulse through his work in labor-management affairs, in economic development, in industrial relations. He was willing to put aside his personal concerns when the opportunity came to serve his government -- as an economist, as Secretary of Labor, as Director of the Office of Management and Budget, and now as Secretary of the Treasury and Assistant to the President.

He is, I believe, an excellent example of why we, as a people, have reason to feel particularly favored. We have had men like this throughout history.

He is one of those dedicated men who are willing to devote their most productive years to the service of their government and all their fellow Americans.

Obviously, his objectives are closely allied to yours.

As Secretary of the Treasury, he must be concerned with the level of employment, with an economy healthy enough to support a large labor force, and with an educational and training system which prepares people to handle the jobs when and where they exist.

One of his duties is to act as head of the Cost of Living Council. In this role, he has the responsibility of preserving the buying power of the paycheck, of trying to hold the price line so that wages will be adequate to supply the needs of those who earned them.

At any point in history there have been -- and there always will be -- a great many different opinions of what should be done, what policy should be established. And all of those opinions must be considered objectively, on their merits. They must be weighed in determining the course to be followed, or they must be set aside at the risk of opposition from those who hold them.

Once the decision is made, the responsible executive must bear the further burden of implementing it, enforcing it. I don't mean by this that he must be inflexible, or that a policy once adopted must remain in force forever, just because it was adopted. But, as long as he is convinced that it is the right thing to do, he must make every effort towards its success. When circumstances change, he frequently has to take another direction.

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A good case in point is the recent move into Phase III of our Economic Stabilization Program.

The system of controls in effect since 1971 has helped considerably to improve our economic health. In 1969, the first year President Nixon was in office, the annual rate of inflation was about six per-cent. That rate has been cut nearly in half. Today the United States has the lowest rate of inflation of any industrial country in the free world. We intend to improve on that record. For instance, let me tell you what some of our goals are for this year: We will move further towards our unemployment goals; we want to reduce inflation to 2 1/2 per cent or less; and most important, we will get control of federal spending -- to keep this fiscal year's budget to one quarter of a trillion dollars. Surely, we ought to be able to get along on this amount.

Phase III is an essential element in our effort to reach these goals. It is designed to succeed through the voluntary cooperation of every element in the private sector of the economy, as well as that of the government itself. This means that businesses, and workers too, will largely be able to determine what their own conduct should be, what they themselves should be doing within the anti-inflation standards that have been established.

The Federal Government has the power -- and indeed the responsibility -- to step in when any action is in conflict with the national objective of holding down inflation. But much of the federal machinery necessary during the first two phases of the program can be eliminated. We are counting on the basic cooperative spirit of workers and businessmen, and the response from both groups has been good.

What we have here is akin to our income tax system. It's a voluntary tax system. But you'd better fill out that return. And we have a voluntary Phase III - But we do have a club in the closet -- and we know how to use it.

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What we are trying to do, in essence, is to restore the basic American free enterprise system under which prices and wages find their own fair level through the competitive pressures of the market place. We are preparing for the day when we can all enjoy the security of reasonable price stability without any government controls at all. And we can speed up the coming of that day through the conscientious application of self-help principles -- on both a personal and a national basis.

These are the things President Nixon himself called for in his Inaugural Address -- voluntary action, self-help. And these are the words which Secretary Shultz uses to describe Phase III on the many occasions when he is asked to explain its philosophy.

Voluntary Action. Self-Help. Successful principles for the OIC's and for the United States of America.

It has been a pleasure to be with you tonight and, again, I thank you.

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A-83

FOR IMMEDIATE RELEASE February 13, 1973

WITHHOLDING OF APPRAISEMENT OF
CERAMIC GLAZED WALL TILE FROM THE PHILIPPINES

Assistant Secretary of the Treasury Edward L. Morgan announced today a withholding of appraisement of ceramic glazed wall tile from the Philippines pending a determination as to whether it is being sold at less than fair value within the meaning of the Antidumping Act, 1921, as amended.

The decision will appear in the Federal Register of February 14, 1973.

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 six months from the date of publication of the "Withholding of Appraisement Notice" in the Federal Register.

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

During the period of January through October 1972 imports of ceramic glazed wall tile from the Philippines totaled approximately $780,000.

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Department of the TREASURY NEWS
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FOR IMMEDIATE RELEASE February 14, 1973

DRUG TRAFFICKERS RECEIVE MAXIMUM SENTENCES ON TAX CHARGES IN TREASURY/IRS NARCOTICS TRAFFICKERS PROGRAM

Assistant Treasury Secretary Edward L. Morgan announced today that during January, four identified major drug traffickers received the maximum sentences which could be imposed upon conviction of evading their income taxes or failing to file an income tax return. Those convicted were major targets identified by the Internal Revenue Service in its drive to take the profit out of the illegal traffic in narcotics through use of the tax laws.

In Ft. Wayne, Indiana, Richard L. Barksdale, 33, received a prison term of fifteen years upon his conviction for evading his Federal income taxes for a three-year period (1969-1971). A fine of $30,000 was also imposed.

At Baltimore, Maryland, Gordon R. King, 50, alleged to be one of the top dealers in the Nation's Capitol, was sentenced to serve six years on charges of evading his income tax for one year and not filing for another year. This sentence runs consecutively with an eight-year sentence imposed for possession of an unregistered firearm brought by Treasury's Bureau of Alcohol, Tobacco and Firearms.

In Detroit two men received maximum sentences; one, Lester Ramsey, 46, ten years for evading his income taxes for a two-year period, and the other, Morris L. Williams, 30, received a three-year sentence upon his plea of guilty for filing a false and fraudulent income tax return for one year.

The 19 months results of the narcotics trafficker program are as follows:

$102 million in taxes and penalties have been assessed under the program, of which more than $17.9 have already been collected (see Tables II and III).

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Twenty-five persons have been convicted on criminal tax charges; 48 other criminal tax cases are pending in Federal District Courts; and another 76 investigations have been completed with prosecution recommendations (see attached Tables II and III).

In 46 states, 82 metropolitan areas and the District of Columbia, 1,235 targets have been selected by Treasury's Target Selection Committee and referred to IRS for intensive tax investigation (see attached Table I).

In addition, 1,582 other traffickers are under tax action by IRS.

Mr. Morgan stated, "We believe this program is making a strong contribution to the President's drive to halt the illicit flow of narcotics by seizing the trafficker's working capital.

"As funds become less available and profit becomes an invitation for tax investigations, it is anticipated that many financiers and traffickers will get out of the business or go to prison with maximum sentences."

The program's objectives--to take the profit out of the illegal traffic in narcotics and thereby further disrupt the traffic--are accomplished in two ways:

1. Major targets: by conducting systematic tax investigations of middle and upper echelon narcotics traffickers, smugglers, and financiers. These are the people who frequently are insulated from the daily operations of the drug traffic through intermediaries.

2. Minor targets: by the systematic drive underway to seize--to be applied to taxes and penalties owing--the substantial amounts of cash that are frequently found in the hands of minor narcotics traffickers, those below the middle and upper echelon level.

Treasury has coordinated this tax program with State and local police, whose more than 350,000 officers constitute the first line of defense against the internal traffic in narcotics, as well as with the anti-smuggling drive of its Bureau of Customs, the drive against narcotics distribution of the Bureau of Narcotics and Dangerous Drugs and the Office of Drug Abuse Law Enforcement, as well as the prosecution efforts of the Tax and Criminal Divisions of the Department of Justice.

DEPARTMENT OF THE TREASURY TABLE I

TREASURY/INTERNAL REVENUE SERVICE NARCOTICS TRAFFICKER PROGRAM

STATE	METROPOLITAN AREAS	TARGETS	COMPLETED INVESTIGATIONS
Alabama	Mobile	13	2
Alaska	Anchorage	1	1
Arizona	Phoenix-Tucson-Yuma	63	11
Arkansas	Little Rock	3	
California	Los Angeles-San Diego	46	23
	San Francisco-Oakland	44	7
Colorado	Denver	12	2
Connecticut	Hartford-Bridgeport	16	2
Delaware	Wilmington	1	
District of Columbia	Washington	23	5
Florida	Miami-Jacksonville Tampa-Orlando	99	27
Hawaii	Honolulu	10	1
Georgia	Atlanta-Augusta	31	14
Illinois	Chicago-Springfield Peoria	69	9
Indiana	Indianapolis-Gary	13	5
Iowa	Des Moines	4	
Kansas	Lawrence	1	
Kentucky	Louisville-Covington Newport	6	
Louisiana	New Orleans	17	4
Maine	Bangor	1	
Maryland	Baltimore-Annapolis	15	4
Massachusetts	Boston	24	5
Michigan	Detroit	77	15
Minnesota	St. Paul - Minneapolis	5	1

STATE	METROPOLITAN AREAS	TARGETS	COMPLETED INVESTIGATIONS
Mississippi	Gulfport	3	8
Missouri	St. Louis-Kansas City	22	2
Nebraska	Omaha	3	
Nevada	Las Vegas-Reno	5	
New Hampshire	Portsmouth	4	0
New Jersey	Newark-Camden-Trenton	70	10
New Mexico	Albuquerque	11	5
New York	Albany	14	0
	Buffalo-Rochester	20	3
	New York City	156	47
North Carolina	Greensboro-Charlotte	19	3
Ohio	Cincinnati-Dayton-Columbus	17	
	Cleveland-Toledo	30	
Oklahoma	Oklahoma City	3	
Oregon	Portland	18	4
Pennsylvania	Philadelphia	62	3
	Pittsburgh	39	6
Rhode Island	Providence	6	
South Carolina	Columbia	5	2
South Dakota	Aberdeen	1	
Tennessee	Nashville-Memphis-Chattanooga	8	
Texas	Austin-Houston-El Paso	51	13
	Dallas-Ft. Worth	8	2
Utah	Salt Lake City	6	
Virginia	Richmond-Norfolk	28	4
	Arlington-Alexandria		
Washington	Seattle	25	5
West Virginia	Parkersburg	1	
Wisconsin	Milwaukee	6	1
		1235	254

Office of Law Enforcement
Treasury Department

TABLE II

Major Target Assessments:	Number	Amounts
Regular Assessments	253	$13,559,222
Jeopardy Assessments 1/	53	20,761,714
Tax Year Termination 2/	50	16,434,781
Total	356	$50,755,717
Minor Target Assessments: 3/		
Jeopardy Assessments	105	$ 3,771,705
Tax Year Termination	1477	47,542,245
Total	1582	$51,313,950

Total Assessments involving Narcotic Traffickers $102,069,667

Seizures involving Narcotic Trafficker:

	Major Targets	Minor Targets
Currency	$2,089,362	$11,761,174
Property	376,329	2,460,849

Total Dollars Seized & Collected $17,928,754

Cases Recommended for Prosecution	76
Criminal Tax Cases in U. S. Courts awaiting Trial	48
Criminal Tax Conviction	25
Total Criminal Cases	149

1/ Jeopardy assessments are assessments of taxes made where a return has been filed or should have been filed, but where circumstances exist under which delay might jeopardize the 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 the revenue.

3/ These are assessments made as a result of seizures by other law enforcement agencies of cash or other assets against current income of narcotic traffickers where delay might jeopardize collection of the revenue.

Treasury Department
Office of Law Enforcement

February 1, 1973

U. S. Treasury Department
Office of Law Enforcement

TABLE III

Metropolitan Areas	Major Target Program: Number	Assessments	Dollars Seized	P.R.	I.	C.	Minor Target Program: Number	Assessments	Dollars Seized	Collections
Atlanta, Ga.	20	$ 461,866	$ 28,511	5	3	1	63	$ 1,102,017	$ 184,094	$ 67,877
Austin-Houston-El Paso, Tex.	20	1,899,741	54,220	2	2	0	120	2,025,407	952,012	
Baltimore, Md. - Washington, D.C.	12	1,362,862	-0-	1	2	6	2	238,834	44,879	284,784
Boston, Mass.	5	5,561,815	22,183	1	1	1	75	2,185,241	558,667	
Buffalo, N.Y.	3	16,383	-0-	1	0	0	26	232,894	113,972	
Cleveland, Ohio	0	-0-	-0-	0	0	0	16	731,752	123,807	
Chicago-Springfield, Ill.	15	349,445	16,850	6	3	0	92	2,726,394	220,223	
Detroit, Mich.	24	1,523,548	13,555	6	2	2	84	3,011,125	472,754	692,000
Charlotte-Greensboro, N.C.	3	163,933	15,249	2	0	1	40	361,310	65,179	18,463
Miami-Jacksonville-Tampa, Fla.	41	11,062,410	208,000	2	11	4	80	1,802,522	976,854	142,877
Los Angeles-San Deigo, Calif.	25	915,441	59,238	4	1	2	242	11,333,164	1,627,795	
Newark-Camden-Trenton, N.J.	14	3,721,619	1,656	0	2	0	33	1,558,222	902,473	
New York City	69	8,675,688	1,691,093	11	4	1	123	8,559,841	3,965,542	
Philadelphia, Penna.	5	206,195	16,000	0	2	0	50	794,162	343,394	
Phoenix-Tucson, Ariz.	16	854,076	36,235	5	1	1	87	3,168,141	467,948	
Pittsburgh, Penna.	6	378,614	2,843	7	1	1	15	501,899	159,943	8,144
San Francisco-Oakland, Calif.	22	1,180,313	79,684	5	4	0	82	2,757,068	623,869	
Seattle-Tacoma, Wash.	6	191,260	35,000	1	3	0	13	224,932	122,204	
St. Louis, Mo.	11	1,094,705	7,133	2	2	2	16	656,993	104,376	
Richmond-Norfolk-Arlington, Va.	5	169,480	11,274	3	1	0	7	264,880	15,836	26,895
Other Areas	34	10,966,323	166,967	12	3	2	316	7,077,152	2,176,202	
Totals	356	$50,755,717	$ 2,465,691	76	48	25	1582	$51,313,950	$ 14,222,023	$ 1,241,040

Dollars Seized includes both property and currency
P.R. - Cases Recommended for Prosecution
I. - Criminal Cases in U. S. Courts awaiting Trial
C. - Criminal Convictions

February 1, 1973

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

FOR IMMEDIATE RELEASE February 14, 1973

TREASURY ANNOUNCES ACTIONS ON TWO
INVESTIGATIONS UNDER THE ANTIDUMPING ACT

Assistant Secretary of the Treasury Edward L. Morgan announced today Treasury's actions with respect to two investigations under the Antidumping Act of 1921, as amended.

In one case there is a final determination of sales at less than fair value, and in the other case there is a final determination of sales at less than fair value with a simultaneous withholding of appraisement.

These decisions will be published in the Federal Register of February 15, 1973.

In the first case, Mr. Morgan announced that impression fabric of man-made fiber from Japan is being, or is likely to be, sold at less than fair value within the meaning of the Antidumping Act. These impression fabrics are used for typewriter ribbons and computer tapes. 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 a determination of injury, dumping duties will be assessed on all entries of these impression fabrics which have not been appraised and on which dumping margins exist. A notice of "Withholding of Appraisement" was issued on November 15, 1972, which stated that there was reasonable cause to believe or suspect that there were sales at less than fair value. During the period of calendar year 1972, imports of impression fabrics of man-made fiber from Japan were valued at approximately $750,000.

In the second case, the Treasury Department announced that synthetic methionine from Japan is being, or is likely to be, sold at less than fair value. Synthetic methionine is used as a feed additive to promote weight response and vigor in poultry. 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. Simultaneously with the determination of sales at less than fair value, the Treasury Department issued a three-month withholding of appraisement order covering imports of this merchandise from Japan. The significance of the three-month withholding of appraisement is that imports of the

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merchandise will not be appraised for the three months pending the Tariff Commission's determination. If the Tariff Commission issues an affirmative injury determination, dumping duties will be assessable effective as of the date of the withholding action. If the Tariff Commission issues a negative injury determination, the case is closed, and no dumping duties will be assessed. During the period of January through July 1972, imports of synthetic methionine from Japan were valued at approximately $2 million.

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FOR IMMEDIATE RELEASE February 14, 1973

OIL POLICY COMMITTEE MEETS

A Treasury Department spokesman today issued the following statement:

The first meeting of the Oil Policy Committee was held yesterday at the Treasury. The meeting was chaired by William E. Simon, Deputy Secretary of the Treasury.

The purpose of this meeting was to explain the re-organization of the staff support to the Oil Policy Committee. The re-organization is designed to facilitate immediate implementation of policy decisions and also to outline major areas for immediate action. The emphasis is to take a new look at each of these areas.

It was stressed that a more efficient method of allocating crude oil resources was needed. Alternative methods, which would be more economically sound than the present system, were discussed. These methods will be evaluated within the next two weeks and the best approach will be implemented.

It was agreed that the Oil Import Appeals Board would be reconstituted so as to function as a barometer for supply-demand problems to be brought to the attention of the Oil Policy Committee. The Oil Policy Committee will present guidelines to the Oil Import Appeals Board so that the Board may function as a more effective "safety valve" for immediate relief of critical scarcity problems.

Further, the problem of supplying crude oil for small inland refiners was outlined, and it was agreed to immediately explore alternative solutions to alleviate this situation.

It was also agreed that long-range planning was necessary for an adequate gasoline supply this summer and for next winter's fuel oil requirements. Such planning is now under way.

Mr. Simon told the Committee that as a result of reported shortages of kerosene, he had ordered an immediate study of the kerosene supply situation in the United States. This study revealed that there was a problem of distribution of kerosene in certain areas and not one of total supply. The Chairman has the authority to provide immediate relief in the event of actual hardship cases and Mr. Simon expressed a strong desire to use this authority when appropriate.

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

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FOR RELEASE ON DELIVERY
WEDNESDAY, FEBRUARY 14, 1973

REMARKS BY THE HONORABLE SAMUEL R. PIERCE, JR.
GENERAL COUNSEL OF THE TREASURY
AT THE
KANSAS CITY COST OF LIVING COUNCIL REGIONAL CONFERENCE
ON PHASE III
Wednesday, February 14, 1973
Kansas City, Missouri
(At 9:00 A.M. CST)

PHASE III OF THE ECONOMIC STABLIZATION PROGRAM

As William Shakespeare once said: "What's past is prologue".[1] Phase III of the Economic Stabilization Program is built on what has gone before. Many of the standards, objectives and goals of Phase III are based on what occurred and what was learned during the operations of Phases I and II. To best understand Phase III, it is necessary to be generally familiar with what happened during Phases I and II, and the facts and circumstances that led to the adoption of those programs by the Nixon Administration.

Background

When President Nixon assumed office in January of 1969, he inherited one of the most intractable economic problems in modern times. Inflation and inflationary expectations had truly captured the American economy. The Nation had experienced an annual rate of inflation of 5 percent during the last three months of 1968 and it accelerated to 6.4 percent in the first three months of 1969. This was an intolerable rate of inflation. To combat this situation, the Administration immediately instituted a program of fiscal and monetary restraint aimed at cooling off the economy by winding down

1. The Tempest, Act II, Scene 1.

inflation. Significant progress was made toward that objective. The Administration's fiscal and monetary policies squeezed out much of the excess demand that had placed too much pressure on available resources. However, substantial inflation continued -- not primarily as the result of excess demand, but as the consequence of the momentum generated by past inflation and the expectations of continued inflation.

The problem of continued inflation led the President and his top economic advisers to engage in a comprehensive analysis of the economy, and on August 15, 1971, the President announced his New Economic Policy. The Policy was designed:

1. To restrain inflationary behavior and expectations by a system of wage-price controls.

2. To assure acceleration of economic growth and employment by the more rapid expansion of demand for goods and services.

3. To achieve a realignment in the external value of the dollar which would reflect more realistically the relative position of international prices and costs.

The Economic Stabilization Program was organized to help achieve those objectives.[2] Phase I of that program provided for a 90 day wage and price freeze. The goals of the freeze were to put an immediate halt to wage and price increases for 90 days; to restore confidence in the economy by changing the expectations of the American people about inflation; and to provide the necessary time to develop a plan for the following phase.

The Cost of Living Council[3] was created to provide policy guidance, and the program was administered by the Office of Emergency Preparedness.

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2. At the same time that the Economic Stabilization Program was initiated, the President proposed a tax revision package, including the Job Development Credit and repeal of the automobile excise tax, a 10 percent surcharge on imports, and negotiations leading to revaluation of world currencies.

3. The Council consisted of the Secretary of the Treasury, as Chairman; the Chairman of the Council of Economic Advisers as Vice Chairman; the Director of the Council who is Counsellor to the President; the Secretaries of Agriculture, Commerce, Labor, Housing and Urban Development; the Director of the Office of Management and Budget; the Director of the Office of Emergency Preparedness; the Special Assistant to the President for Consumer Affairs; and the Chairman of the Federal Reserve Board as an Adviser.

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The freeze was for a definite period because an indefinite freeze would be unworkable in a dynamic economy like ours, where technology, new products, and changing demand patterns exert a continuing strong influence on prices. Movements of prices and wages serve the essential purposes of organizing and guiding the allocation of resources, and to suppress them for long would seriously distort resource allocation. Consequently, a sequel to Phase I was necessary.

It was realized that the success of Phase II would depend in large measure on it being well understood and widely supported by the public. Consequently, the President and his Cost of Living Council consulted with numerous representatives of each major interest in the control program: labor and business, farmers and consumers, State and local governments, and the Congress. From these discussions, a consensus was ultimately obtained on the belief that Phase II required: (1) a clear cut, publicly supportable goal for the disinflationary effort; (2) machinery allowing the public and major elements of the economy to participate in setting policy and administering the program; (3) an essentially self-administered system embodying strong incentives to encourage anti-inflationary behavior; and (4) provision in the system for maximum continued operation of competitive pricing and free collective bargaining.

The formulators of the plan for Phase II decided that in the interest of equity and effectiveness, the controls should be mandatory, and initially as comprehensive in their direct coverage as was administratively feasible. The decision for almost universal coverage at the outset did not preclude the relaxation of the controls by stages, as the effectiveness of the system was demonstrated, confidence in the control of inflation was strengthened, and sectors of the economy no longer requiring control were identified.

It was against this background that the Cost of Living Council developed the plan for Phase II which was approved by the President, and ultimately became effective on November 14, 1971. The Executive Order establishing the administrative machinery for Phase II provided for the continuation of the Cost of Living Council. The COLC was assigned responsibility for establishing broad goals, determining the coverage of the control program, overseeing enforcement, and coordinating the anti-inflationary effort in line with the overall goals. In a sense, it was the umbrella policy organization under which the groups implementing Phase II operated.

The primary bodies created to develop standards and make decisions on changes in all prices (including rents) and compensation (wages, salaries and fringe benefits) were the Price Commission, composed of seven public members, and the tripartite Pay Board which originally consisted of 15 members divided equally among business, labor, and public representatives, but which was eventually reduced to seven members (five public and one each for business and labor).

The Pay Board has the responsibility for promulgating regulations and making rulings which were designed to keep compensation at levels consistent with the goals to reduce inflation set by the Cost of Living Council. The Price Commission had the same responsibility with respect to prices and rent. Although the COLC had the responsibility for setting goals in the Phase II program, it had no supervisory authority over any regulation issued or rulings made by either the Pay Board or Price Commission.

Advisory committees were also established to promote a voluntary program to restrain interest rates and dividends, to solicit State and local government cooperation, and to suggest means to curtail price increases in the health services industry. A rent advisory board was created to counsel the Price Commission, while the pre-existing tripartite Construction Industry Stabilization Committee was placed under the authority of the Pay Board. The National Commission on Productivity which existed prior to Phase I, was expanded and assigned the advisory role of insuring that the entire stabilization program encouraged productivity growth.

For the purposes of administrative efficiency, the COLC decided that small economic units should not be required to give advance notice or to report price and wage increases which were consistent with the basic guidelines established by the Price Commission and the Pay Board. This group included the vast majority of businesses in the United States. The largest firms and employee groups were required to obtain advanced approval from the Commission and the Board for any change, and an intermediate group was required to report after wages or prices were increased in accordance with stabilization regulations.

The Cost of Living Council recognized that prices of some products and services were either insignificant in the overall inflation problem relative to the administrative difficulty of controlling them, or were impractical to control, or were subject to direct controls outside of the Phase II program. Consequently, the Council exempted these products and services from the program. These exemptions included such items as raw agricultural products, life insurance, exports, securities, and damaged or used products.

The organization basically responsible for seeing to it that the public complied with the rules and regulations issued under the Phase II program was the Internal Revenue Service. The IRS assigned approximately 3,000 agents in 58 offices scattered throughout the Country to work on the stabilization program. The Office of Emergency Preparedness, which had administered Phase I, no longer had any responsibility for the program.

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The power of the President to freeze and control wages and prices is based on the Economic Stabilization Act of 1970. In reviewing that Act and considering the various legal aspects of the Phase II program, several of us, having an official interest in the program, concluded that it would operate much more smoothly and have a greater chance of success if the Economic Stabilization Act was substantially amended. Consequently, the Act was amended in a number of respects. For example, the President's power to stabilize the economy was extended to include interest rates and dividends; Phase II agencies were generally excluded from the operations of the Administrative Procedure Act; stabilization agencies were authorized to issue subpoenas; and a system for the Federal Courts to handle more efficiently cases arising under the Economic Stabilization Program was written into the Act.

During Phase II, as compared to the pre-freeze period, the rate of inflation decreased, total employment rose, the rate of unemployment dropped, and real spendable earnings rose. In general, the program received wide public acceptance and voluntary cooperation.

The effectiveness of Phases I and II is clearly shown by the leading economic indicators. At the time Phase I became effective the annual rate of inflation as measured by the Cost of Living Index was 4.8 percent. By the end of Phase II, it had dipped to 3.3 percent. Real GNP was 1.4 percent at the beginning of Phase I, and by the end of Phase II, it had risen to 7.5 percent. During the same period real spendable earnings rose from 1.2 percent to 3.8 percent, and the level of unemployment had fallen from 6.1 percent to 5 percent.

One may appropriately ask, "If Phase II was operating so well, why did the Government shift to Phase III?"

Development of the Rationale for Phase III

While Phase II was generally successful, it did have problems that would eventually require a change in the system. This became very clear to the Cost of Living Council and others responsible for the Economic Stabilization Program after Phase II was carefully analyzed during December, 1972 and early January, 1973. Consultation meetings were held with labor, management, consumers, members of Congress, and the members of the various boards and organizations serving the Economic Stabilization Program. After reviewing the results of this consultation process and the experience gained from operating the present system, it was clear that the burdens of the Phase II control system would mount in the coming year.

It was found that red tape and administrative burdens, both for the Government and the public, would expand. Delays and interferences with the normal conduct of business would become more serious.

Inequities in the treatment of different individuals and businesses would multiply. Incentives to efficiency and investment would be weakened.

It was believed that if the present system continued for long unchanged, these difficulties would become so overwhelming that the system would become ineffective. Therefore, the system had to be modified to achieve its continuing contribution to the anti-inflation effort with less danger of injury to the economy, and with greater equity in the treatment of the individuals and businesses covered by the system.

During this battle against inflation -- both in the pre-freeze and post-freeze periods -- the Administration learned a number of lessons. Those of us involved with economic stabilization were greatly impressed with the power of competition. In industries where there were lots of firms and excess capacity, so that firms were really fighting for business, competition was probably more effective than our control system in holding down prices. There were many instances during the operation of Phase II when firms met all of the necessary requirements and received price increase approvals, but were not able to implement those approvals because of the competition in their industries.

We also learned that with public cooperation, a voluntary, self-administered controlled system can, in general, operate effectively in reducing inflation. There are, however, certain areas of the economy where, for a variety of reasons, mandatory controls become necessary. At the present time, with rapidly rising food prices, food processing and retailing industries must be subject to mandatory controls. The health care and construction industries also present problems which -- for the present time at least -- can be better handled with the aid of mandatory controls.

We also realize that our economy is extremely dynamic and other situations may develop in the future where voluntary restraints are not achieved and mandatory controls will become necessary. Therefore, in any control system, it is necessary to retain the power to impose mandatory controls whenever it is considered imperative to attain the goals of the program.

Finally, we know that no wage-price system, regardless of how ingeniously devised, can be successful and produce substantial results unless certain fundamental economic principals are adhered to. Most fundamental among these is sound fiscal policy. Without strong fiscal discipline, Federal spending may be so pumped up that the same forces are released that causedthe earlier inflation. The Administration will vigorously resist this danger. That is why it intends to hold Federal spending for fiscal year 1973 within $250 billion. The Administration submitted a budget for fiscal year 1974 in which expenditures are not to exceed $268.7 billion, and which will not exceed the tax revenues that would be generated by a fully employed economy. It is imperative that Federal spending be kept within these bounds if two very important goals to the American people are to be achieved, namely, further reduction of inflation, and no increase in Federal income taxes.

It was against this background that the Phase III program was formulated.

The Phase III Program

The Cost of Living Council is continued under Phase III. The Price Commission and Pay Board and all advisory committees that existed under Phase II will be terminated, and the authority of the Commission and Board as well as their staffs will be transferred to the COLC.

Rental units are excluded from the program, but landlords are expected to exercise restraint. Regulated industries will be guided by the general criteria listed in present Price Commission regulations, and restraint is expected to be reflected in their actions and the actions of regulatory agencies.

Generally speaking, except for the food, health, and construction industries, Phase III will be a voluntary, self-administered program. As a general guide for prices, increases in prices above presently authorized levels should not exceed increases in costs. Even where costs have increased prices should not be increased if the firm's profit margin exceeds the firm's base-profit margin. Alternatively, a firm may increase prices to reflect increased cost without regard to its profit margin if the firm's average price increases would not exceed 1.5 percent in a year. Moreover, the base period for calculation of the profit margin guide has been revised to permit inclusion of any fiscal year that has been concluded since August 15, 1971.

The existing general standards of the Pay Board can be taken for the present as a guide to appropriate maximum wage increases unless and until they are modified. A Labor-Management Advisory Committee has been established to advise the Cost of Living Council on whether the standards should be modified and, if so, how.

In general, with the exception of firms in the food, health, and construction industries, all firms with sales of more than $50 million (approximately 3,500 firms) are required to keep records of profit margin changes as well as price changes which will permit the computation of weighted average price increases. Firms will have the obligation of producing these upon request. All firms with sales of $250 million or more (approximately 800 firms) are required to file quarterly reports concerning any weighted average price change and their profit margin.

Generally speaking, with the exception of employee units in the food, health and construction industries, all employee units of 1,000 or more will be required to keep records of wage rate changes, and all employee units of 5,000 or more will be required to file reports with the Cost of Living Council indicating wage rate changes.

The Cost of Living Council staff and the Internal Revenue Service, under the direction of the COLC, will monitor performance through reviewing reports received from firms and employee units; spot checking and auditing the records of firms; and using various government and trade data. There will be a reduction in the number of Internal Revenue Service agents working on Economic Stabilization from the 3,000 used in Phase II to approximately 1,500.

The Cost of Living Council has the authority to establish mandatory standards where it is necessary to assure that future action in a particular industry is consistent with the national goal of further reducing inflation. Also, if it learns that an action has been or is about to be taken that is not consistent with the standards or goals of the program, the Cost of Living Council can issue a temporary order setting interim price and wage levels. In short, as has often been stated by officials connected with the Economic Stabilization Program, the COLC has a "big stick in the closet" which it can use if there is any breakdown in the system of voluntary restraint. Incidentally, the Economic Stabilization Act of 1970, as amended, is sufficient to give the Council the authority to invoke mandatory controls and punitive sanctions when necessary. That is why the Act did not have to be further amended, except to provide for a one year extension.

The food, health, and construction industries will be under mandatory controls. Special rules have been or will be devised for each of these industries.

Food processers will be required mandatorily to comply with present regulations, somewhat modified, including pre-notification and approval of cost-justified price increases. Food retailers will be held to present margin markups. Pay units in the food processing and retailing industries will continue to be covered by present regulations. A committee drawn from the Cost of Living Council has been established to review and recommend appropriate changes in Government policies having an adverse effect on food prices. There will also be established a Food Industry Advisory Committee which will be composed of people from the private sector appointed by the President

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to advise the Council on the operation of the Economic Stabilization Program in the food industry and other matters related to food costs and prices.

The Federal Government has also taken certain steps to increase the supply of food with the expectation that these actions will help reduce the cost of food. For example, the Administration has suspended all quotas on meat imports for 1973; and the Department of Agriculture has temporarily suspended quotas on imported, non-fat dry milk, has eliminated the mandatory set-aside requirement under the 1973 wheat program, and has terminated the direct export subsidies for lard, broilers, and flour.

The present controls applicable to the health care industry will continue until appropriate modifications are made by the Cost of Living Council. A committee drawn from the Cost of Living Council will be established to review and make recommendations concerning changes in Government programs that could lessen the rise of health costs. Also, an Advisory Committee composed of knowledgeable individuals outside the Federal Government will be established to advise the Cost of Living Council generally on the problem of health costs. This Committee will also work to mobilize insurance companies and other third-party payers to use their influence to curb the rise in health costs.

The Construction Industry Stabilization Committee, which existed under Phase II, will continue its work with the twin goals of improving the bargaining structure in the industry and achieving additional progress in bringing the rate of wage growth in this sector into line with the general wage growth in the economy. Rules are provided to insure that modifications in the wage growth rate can be reflected by adjustments in construction prices.

The Committee on Interest and Dividends, which was established under Phase II, and chaired by the Chairman of the Board of Governors of the Federal Reserve System, will be continued. This Committee, subject to review by the COLC, is charged with formulating and executing a program for obtaining voluntary restraints on interest rates and dividends.

Will Phase III Be Successful?

By the end of 1972 the rate of inflation had been reduced to 3.3 percent. When he announced Phase III, the President stated that a goal of the program was to further reduce the rate of inflation to 2-1/2 percent by the end of 1973. Can this goal be attained along with a further substantial reduction in unemployment, a considerable increase in GNP for 1973, and an increase in real spendable earnings?

If this question is eventually answered in the affirmative, then Phase III will have been a success.

In my opinion, the success of Phase III will depend on three factors:

1. Whether Federal spending is held within the budgetary limits recommended by the Administration;

2. Whether food costs are brought under control; and

3. Whether the public will voluntarily comply with the standards for wage and price increases set by the COLC during Phase III.

To the extent these things are done, Phase III will be a success. To the extent they are not, Phase III will be a failure.

Thank you so much for your attention.

Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE WO4-2041

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FOR IMMEDIATE RELEASE February 15, 1973

TREASURY'S MONTHLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders for $1,800,000,000, or thereabouts, of 349-day Treasury bills for cash and in exchange for Treasury bills maturing February 28, 1973, in the amount of $1,700,665,000. The bills of this series will be dated February 28, 1973, and will mature February 12, 1974 (CUSIP No. 912793 SM9).

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

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Standard time, Thursday, February 22, 1973. 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.

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Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Only those submitting competitive tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on February 28, 1973 , in cash or other immediately available funds or in a like face amount of Treasury bills maturing February 28, 1973 . 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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FOR IMMEDIATE RELEASE February 16, 1973

Director of the Secret Service, James J. Rowley, today issued the following statement:

As a result of recent numerous news reports of an alleged rift between a member of the Secret Service and a member of the White House Staff, I wish to make the following statement in the interest of establishing an accurate record.

Robert H. Taylor, formerly Special Agent in Charge of the Presidential Protective Division has not been discharged nor was such action ever considered. Mr. Taylor has been transferred to become the Special Agent in charge of the Foreign Dignitary Protective Division--a Division that is charged with the responsbility of protecting the numerous foreign heads of state and other dignitaries that visit the United States. Mr. Taylor's transfer was initiated by me in keeping with our policy of rotating supervisory personnel.

At no time has any member of the White House Staff either requested or implied to the Secret Service that Mr. Taylor should be removed or transferred.

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

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FOR IMMEDIATE RELEASE February 16, 1973

SAM Y. CROSS
APPOINTED DEPUTY ASSISTANT SECRETARY FOR
INTERNATIONAL MONETARY AND INVESTMENT AFFAIRS

Treasury Secretary George P. Shultz today announced the appointment of Sam Y. Cross of Falls Church, Virginia, as Deputy Assistant Secretary for International Monetary and Investment Affairs in the Office of the Assistant Secretary for International Affairs.

Mr. Cross, 45, is a career Treasury employee. He has been serving as Director of the International Monetary System Office. He succeeds Mr. William Cates who recently resigned to return to private business.

Mr. Cross began his career at Treasury in 1951 as an economist. He served as Treasury Representative in the U.S. Embassy, London, from 1952 to 1956 and as a National Security Affairs Adviser in the Treasury Department in Washington from 1956 to 1963. He was again stationed in London from July 1963 to May 1967, as U.S. Treasury Representative. Upon returning to the United States he was appointed Director of the Office of Developing Nations. In September 1970 he became Director of the International Monetary System Office.

Mr. Cross is a native of Florida. He received BA and MA degrees from the University of Tennessee in 1949 and 1950. Mr. Cross is married to the former Norma Sigler of Los Angeles, California. The Cross' have four children.

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SPEECH OF

THE HONORABLE GEORGE P. SCHULTZ

SECRETARY OF TREASURY

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to the

BUSINESS COUNCIL

Mayflower Hotel

Feb 14 73

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(Applause)

VOICE: Good friends, the Honorable Frederick B. Dent, the Secretary of Commerce.

(Applause)

VOICE: Mr. James Donnelly, the Special Assistant to the Secretary of the Treasury.

(Applause)

VOICE: And another good friend of mine, the Honorable Peter M. Flannigan, Director of the Counsel of International Economic Policy.

(Applause)

VOICE: Mr. William L. Giffard, Assistant to the Secretary of the Treasury for Legislative Affairs.

(Applause)

VOICE: And another man who's been known to us for some time, the Honorable Kermit Gordon, who's now the President of the Brookings Institute.

(Applause)

VOICE: And another old friend of all us, the Honorable Richard M. Elms, who's now the United States Ambassador -- this says designate, but I thought you were confirmed, Dick?

Aren't you confirmed, now?

(Applause)

VOICE: The Honorable James Kiao, Director the United States Information Agency -- Information Agency.

(Applause)

VOICE: The Honorable William E. Simmons, the Deputy Secretary of the Treasury.

(Applause)

VOICE: And the Honorable Herbert Stein, Chairman of the President's Council of Economic Advisors.

(Applause)

VOICE: And another very good friend of mine, and a good friend of all of us the Honorable Casper W. Weinberger, the Secretary of Health, Education and Welfare.

(Applause)

VOICE: Now, it's a great privilege and an honor for me to be able to introduce our distinguished speaker this evening, and I don't propose to take much time in introducing him.

As you all know, he came to Washington as President Nixon's first Secretary of Labor, and that was in the spring of 1969. Then he took over as the first Director of the Office of Management and Budget when that agency was created in July of 1970.

And then last May, he was appointed to his present position as the Secretary of the Treasury. Recently, when the President announced some rather major changes in his White House staff, he named Secretary Shultz as one of the five

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major assistants to the President, who'll be charged with overseeing some of the very important activities for which the President is directly responsible.

And Secretary Shultz's responsibility, of course, in this area will be in the field of economic affairs.

It was a great privilege and an honor for me to have had the opportunity to work with George during my years in the Pentagon, and I learned to respect him very highly, and to admire him, as I'm sure all of you have done.

He's a true professional in his field, and I think we are very, very fortunate indeed, that he has been willing to take the time from his very busy schedule, particularly his busy schedule of these last several weeks, to be with us here tonight.

So it is a real personal pleasure for me to present to you the Honorable George P. Shultz, the Secretary of the Treasury.

(Applause)

SECRETARY SCHULTZ: First of all, I have a couple of introductions of my own to make, and you lost a Chairman of the Business Council, but I've gained a Chairman of our Savings Bond Drive in the Treasury, and Bill Batton's doing a great job for us.

(General laughter and appluse)

And your loss is my gain. And I think it's just

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a rather --

(Applause)

And second, I didn't realize Arthur Burns had so much influence in this organization, but you didn't introduce Arthur Burns, David.

(General laughter)

My goodness, Arthur Burns, come on.

(General laughter and applause)

You know where you stand, Arthur, to all us people.

And I would first like to record my thanks to the Business Council for the help that you have given us in the Administration. I recall particularly in the -- most recently, Dave Packard, called me and told me that he thought he might very likely get elected as Chairman. He'd been nominated, and thought that the reason he was Chairman tantamount, and he came around and we talked about a little bit.

I said well, David, you could bring some of your Business Council members around. I think it was on Tuesday afternoon, or some afternoon like that, right after we announced the Phase III. We'd have something to talk about, and he did.

He brought a group from the Business Council to my office. We discussed the Phase III changes. And Dave gave a very impressive lecture.

I wrote it down right after you left the office, David. I thought it was a pretty good way of putting the problem, and asked for cooperation and support.

And as far as I have been able to figure out and looking around and what has been happening, the companys represented here have been giving Phase III genuine support, and we appreciate that very much.

And I might say that in the Productivity Commission, the President's Productivity Commission, which was formed a few years ago, and has become a very important vehicle for discussing a wide range problems that have to do with productivity, but also with wage and price matters; we have drawn from the Productivity Commission as a group to consult with about the wage and price system.

And the Labor Management Advisory Committee, that will make a statement about what is responsible wage behavior in the United States for 1973, the management side of that is drawn from the Productivity Commission as is the labor side.

And at least in my judgment, it's an outstanding group of people, and I might say four of the five management people are members of the Business Council.

So there is a great contribution here. There is a sense of service, and I would say, from my own standpoint, I don't feel the slightest hesitation in calling anyone of you and saying, here's something that we would like to get you to do on behalf of the Government, and I have a total confidence that you would respond and do your best at it, and give us your help.

So I thank the Business Council for the help that you are, and I'm sure will give us.

Like to start by relating an incident that happened to me and a number of other people here in the room a few mornings ago. The President had a breakfast for members of the Cabinet, and White House advisors. And we talked about the budget, and we talked about this and that.

Various people gave reports. And Bill Rogers gave a report, and Ryan Ash gave a report, and John Roadsman, and they were all right-on and so -- and then the President gave a little report at the end.

And it was one of the most moving and dramatic movements that I have experienced in my lifetime, and certainly in the Administration. And I think there is, in addition to the drama of it, there are some lessons from it.

The President has felt, of course, that as he has pursued the Vietnam War and problems, that he has had a sense of strategy, and a sense of what it was necessary to do, and a sense of the toughness that had to be exhibited in order to get a reasonable result, and I'm sure a certain sense of fulfillment when we have finally had peace. And he talked a little bit about that.

And then, he related an incident having to do with the person, the last man killed in Vietnam, who had been buried in Arlington Cemetery a few days earlier, and had written his family before he had been killed saying that he wanted to bring them to Washington to see to the Capitol, and see the White House and so forth.

And the President said in here, they were. They came into the Oval Office. There's a wife, five children, and -- I forget exactly what -- three brothers and two sisters, the grandfather, sort of a big American family.

And he remarked on how Lady Bird Johnson had behaved with such dignity as a First Lady. And he said and here came this woman, and not accustomed to the glare of publicity that a First Lady become accustomed to, who came to Washington under these difficult circumstances, and he said behaved like a queen. No, he said no, behaved like a First Lady.

And then he talked about the family, and then they came through the sort of a little receiving line to shake his hand. And first of all, Bert went through as the boy who had sideburns and a mustache, and a beard and long hair.

The press were eyeing him for juicy statements. As he got up toward the President, lo and behold, on his lapel was an American flag. He spoke to the President about how proud he was of his father.

The next person through, he said, was a girl of about 16, very pretty, who came through the line, and looked up at him and said Mr. President, may I kiss you?

The President stood and I was sitting about two chairs away. I could see him, and I think you could see the sort of emotion coming from his toes right up through.

And we all sat there for a good minute or two without anybody having anything to say. And the President couldn't say anything.

So finally, he did say well, so that's what it's all about.

And it was a very dramatic kind of moment for all of us, for him; and I think dramatizes in a kind of perverse way the most important fact about our economy and our society right now, which we have not absorbed at all, and is that we have peace.

We've had war for eight years. It's been terrible, difficult, and now we have peace, and we don't even know it. And I suppose that most people don't accept the fact that we do. The POW's coming home, and we begin to, and all come home we will.

I was put in my place a little bit, given a better sense of prospective about what's really important, last Monday night when I had been working on our international monetary problems for days and nights, weekends and so on, meeting with everybody.

And Monday night, finally, we got it all settled, and we had a little press thing. And I went home.

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And my wife was there. My wife was there, and she said -- [Recorded proceedings interrupted at this point].

(General laughter)

My wife was there and she said that -- have you been watching television today? And I said no. I've been busy. I've been at the office all day.

She said well, I've been watching television all day, and she gives me the most emotional thing, or traumatic thing that I have seen for a long, long while. She described it. She said my tears were running down my cheeks most of the day.

And then she said by the way, what's going on with your monetary thing?

(General laughter)

Well, it really put things in place.

(General laughter)

What is important? Which is important is human beings, what is happening to them, and that's what it's all about.

And that is what this economics business is all about. That's what the moentary business is all about.

So, that unless we have that prospective, we're nowhere. So, all of these things I think add up to a prospective that seems to me very important as we try to assess what lies in front of us in the economy, which I know is principally

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your concern here, which I will talk about.

But the big thing is we have peace, we have a new outlook now. We need to take advantage of it, and do things right. We have a new situation in this country, that we haven't had before.

And we just -- we don't even appreciate it yet. And it's going to sink in. It's going to gradually dawn on people, that it's different, and I think it's going to make a tremendous difference to us, make a big difference to everybody but the stock market, which of course will go down.

Now, just in trying to give a sense of outlook, as I have tried to think of it, in thinking about the President and how he operates, and how when I first had that meeting after the inauguration, we found these books.

We went to the meeting. It turned out they were four-year calendars, and they had a message that,first of all, make each day count; and second of all, have a sense of prospective, have a sense of strategy, and try to think in terms of being willing to do something, felt it rather unpleasant and difficult today, if you think that six months from now, a year from now, two years from now, maybe it will wind up strategically having been a good thing.

So, what is a sense of strategy for the economy? Well, I would say that it has to proceed from a sense of the -- all of the interconnections there are between the different things going on. You certainly see them in the Treasury, among other places, as you see the different kinds of things we work on, you get a sense of the complexity of the system.

You can't help but get a sense of the need for respecting what the free market can do. And as you sense the reactions to efforts to get a little bit more of the free market in the system, you recognize how deeply imbedded in business community and in our financial community is the sense of need for regulations.

And this case, this deep case of regulatory hiatus, that we have, and that I think we all must recognize.

Nevertheless, as the President approaches the problem and thinks about the sense of strategy, I think very important in his idea of the right sense of strategy is a sense of what -- of letting the free market do its job, and trying to get back to that.

Now, we have made a number of major moves in that direction recently. And they have been quite, I would say, received with some applause and a reasonable amount of hostility, which I think only shows how important it is to think about the concept of freedom, and what it means, and how important it is.

We have Phase III, which is a shift from bureacratic administration to self-administration with stiff rules. It's a very strong programs of controls from any standpoint. Herb characterized it as being as voluntary as it can be, and as mandatory as it has to be, and I think that's a very good characterization.

And I'm afraid, I have to tell you, that it will be mandatory, and all of it -- and we will clobber somebody as soon as we find -- and if any of you want to proffer yourself up as that juicy target, to get your heads knocked off, we're delighted.

And I think that's going to happen one of these fine days. It's already happened. Harry Bridges didn't get his wages raised, and various other people feel aggrieved.

So it's a strong program, and it's going to be administered that way. And there is a great sense of determination in the Administration to deal with the problem of inflation, and to get as much out of political controls as we can without indulging ourselves in the further corruption of our committment to freedom in this country, that we have gone so far down the road of.

Now, a second step that we have made, as of Monday, is a step toward more flexibility in the monetary system. In the devaluation of the dollar, we have two more of our six major trading partners floating; Japan and Italy, add them to Canada and Britain, you have a big proportion of our trade in a situation of flexible exchange rates.

We have reasserted the fact that we have no obligation, we have undertaken no obligation to intervene in

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exchange markets.

Now, we look for stability in exchange markets. Then we think that this move that conveyed is a positive one. I don't know that it has been perceived particularly as a move which has brought a greater element of flexibility in the system. But I think that is at least a reasonable new impact of it.

And, of course, we have also stated that we intend for our capital controls program phased out by the end of 1974.

Now, these are steps, I think, in the direction of the President's strategy for economic policy, and I think we can implement that strategy successfully, and we can have expansion and we can have prosperity, and we can attain more stable prices.

We can do that if we manage to maintain to our attention on fundamentals. Yeh, there is mileage that we can get out of these controls as we ween ourselves away from them.

But at the time time, we have to maintain ourselves with other countries. We have to rely on the good sense of our friend Arthur Burns, his colleagues in the Federal Reserve to conduct our monetary policy in accordance with these broad goals, as I'm sure he will.

We have to take particular problems like the problem of food prices, and treat it in terms of the fundamentals; that is, we have to see that the basic problem involved is not what kind of additional controls we can impose, but what we can do that will increase the supply of food. That is what is going to get the prices of food in line.

And I must say as I think about the problems that we have in comparison with others. And I had a little round of discussions with the British recently.

Consider trying to implement a wage and price control system while you're going into the Common Market, and thereby raising your tariffs on food prices in effect, and running them up. It's wild.

We at least have a sense of what we can do if we have any luck at it in getting food prices down by increasing supply. In that case, going at it in terms of the fundamentals.

And finally, I would say, that we have put forward a budget, that while it has been characterized in a great many way, on the whole it has not been characterized as outkeeping with the economic needs, that we have right now.

It is a tough budget by political standards. It is certainly as much as we ought to spend by economic standards, and it represents a determination by the President to hold spending under control, and keep taxes under control, and put out a budget policy that's consistent with expansion of the economy, and reasonably stable prices.

Now, I think this battle, which you're in the midst of -- and there is big battle here going on -- is nevertheless a battle which the President is winning -- [Recorded proceedings interrupted at this point] -- that 250 billion is enough.

That it really isn't a good idea to raise taxes more in order to spend more Federal money. And it is not a proven case that the Federal Government knows how to spend your money better than we do on the market, at the levels that we're now at.

And that for fiscal '74, another $19 billion is quite a good-sized additional boost. And we have put into play, as a relative innovation, a fairly detailed fiscal '75 budget. That is by way that I can demonstrate that if we have some discipline, the job can be done.

Now, I want to call this to your attention as an example of what Presidential determination can do. You may remember six months or eight months ago, that everybody said that the Budget was totally out of control.

Kermit Gordon's institution, the Brookings Institution, published a study showing extrapolations, and saying obviously spending was way up, and we're going to have to have a tax increase.

The American Enterprise Institution basically published a similar sort of thing. I'm certain that all of your economists told you that that was the kind of situation.

It was a universal view. And I remember talking to small groups in the Treasury about it. And I would have to say, there were people that came in that were very polite, and listened, but they were waiting with a very skeptic attitude.

However, I think today people think well, it's going to happen. We are going to have an ability to hold out someplace near 250 billion. It is possible to manage this thing, so that we don't have to have a tax increase.

And it is purely, and simply, and only for one reason because the President was determined to do it. And they have all the smart money, all the people who know everything about everything thought he was wrong.

When he said there wasn't going to be a tax increase during the campaign, he was called a liar. But that is the way it's going to be. And it is an example of what the President can do. And I think it expresses again his committment to fundamentals.

And it is this committment to fundaments with an overlay of controls, which we will use with determination; make no mistake about it. And we have an outstanding labor-management advisory committee. And they will make a good statement.

But it is all to no avail unless the fundamentals are in place, and they are going to be in place.

So, I think to go back to this, whatever, theme I have for this talk, that the thing that counts is the sense of strategy that you have. That we have a sense of strategy. It is going to work. It is going to work fundamentally because it is based on the things that are fundamentally important.

[Recorded proceedings interrupted at this point.]

I would be glad to try to field your questions, or listen to your statements. But I have found over the years, I was commenting to Dave Vander, that I am now among my important chairmen of the Business Council.

(General laughter)

The first time I appeared before the Business Council, Mr. Nickerson, you were the Chairman. And I appeared under Fred Divorce's auspicies, and to go back some, under Dave Packard's auspicies.

And I have always found this a very stimulating and interesting group. And you haven't always agreed with me, and you've made that known to me. And that is fine.

And I would be pleased to have your questions or your comments on whatever.

(Applause)

Yes, sir?

QUESTION: [Inaudible]

SECRETARY SCHULTZ: Well, I'll be willing to respond. Whether I'll answer or not, remains to be seen.

(General laughter)

QUESTION: [Inaudible]

SECRETARY SCHULTZ: Well, as far as exchange rates are concerned, we tried to have the monetary system in

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conjuction with the trade arrangements, which we don't think are satisfactory at all or are not as satisfactory as they should be -- I suppose I shouldn't say that satisfactory at all -- in conjunction with the flow of inventsments, and military spending, all together looked at, we seek to have the exchange rate system play its part in making adjustments for the flows of international trade.

So that we can have some reasonable equilibrium. And we think that -- and this underlies the Smithsonian Agreement and the devaluation basically -- that over a period of time in the post-World War II period, the dollar was not valued correctly, and other people undervalued, systematically.

And that we had to make some changes that would help to correct that. We are under no allusion in the Administration that changes in exchanges rates can carry the full load of international economic adjustment.

They're important, but other things have to be done, too. And we have said that, and said that and said that. The speech that the President gave, and the one that he instructed me to give subsequently at the IMF meetings, emphasized this point. And we repeat it, and repeat it.

And we seek a system that will allow an encourage a strong flow of trade, and will have this take place with equilibrium in our balance of payments.

Now, let me come to your word discipline, because I agree with you. I think that we must have discipline.

You referred to Arthur Burns. I meet with Arthur Burns a great deal, particularly lately.

(Laughter)

And every other word he utters is discipline, and he has preached it at us, and preached it at us, and so have many others.

And the budget that the President has put forward is a disciplined budget.

Now, many have said why didn't you have a disciplined budget in fiscal year 1971, say, or '72? Why didn't you try to balance the budget? That would have been discipline.

In our view, that would have been false discipline. That there was an importance from the standpoint of expanding the economy to letting the budget of the Federal Government be out of balance, and that that would provide a stimulation to the economy, as long as you did have some sense of how far you could go with that.

And we put forward for that reason the concept of the full employment budget; that is of measuring your outlays against -- [Inaudible] -- you would get at full employment. And we're trying to keep them more or less within that limit, so that as you got toward full employment, you could discipline yourself. You could obtain those outlays, and you wouldn't have had the situation run away with you.

And we think that that is where we are if we can get the discipline.

Now, the President has put forward a disciplined budget. He has gotten practically nothing but criticism for doing it, all around Washington anyway.

I have the feeling out around the country, he's gotten a lot of praise for it, but in Washington, it's a big Constitutional issue, and we're fighting away about that.

And sir, I would say if you're interested in discipline, help us, help us keep this budget in line; not by the use of any improper procedures, we don't think we have used any improper procedures, but by supporting the idea that programs that don't work, that President Eisenhower has tried to get rid of, that President Kennedy tried to get rid of, that President Johnson tried to get rid of, that President Nixon tried to get rid; that we should try to get rid of them, and just do it.

And that's discipline. And that, I think, is very fundamental in this whole, and comes back to exactly what I was trying to emphasize about what it takes, right now, to have prosperity without inflation, and some reasonable stability in our international accounts is a sense of discipline particularly on our budget.

And in the statement that we drew up that -- I issued it, but on behalf of the President, and the people who worked on it, about the devaluation. We wound up with two points. That we all felt were the fundamental points: one of them was the need for international monetary reform on a long-term basis; and the other was the importance of how you conduct yourself in the domestic economy, discipline, particularly on the budget.

Thank you.

(Applause)

QUESTION: [Inaudible]

(General laughter and applause)

VOICE: Well, thank you very much, George, for this very important -- [Recorded proceedings interrupted at this point].

MR. BURNS: [inaudible] -- when we look back to the good old days when we had discipline, one of the disciplines was furnished by the gold standard.

Under the gold standard, gentlemen and ladies, we had a declining price level from 1879 to 1896. We had a rising trend in the price level from 1896 to 1913.

Between 1914 and 1920, the price level rose in wholesale markets by something like 140 or 150 percent. The -- we had a collapse in prices from 1929 to 1933.

We had severe depression from 1882 to 1885. We had severe depression from 1893 to 1896. We had a crisis from 1907 to 1908.

We had a rather severe depression just before World

War I. We had another one right after World War I from 1920 to '21,and we had a great collapse of our economy from 1929 to 1933; all happened under the discipline of gold standard.

Let's not be romantic, gentlemen.

(General laughter and applause)

VOICE: Well, thank you very much, Arthur.

And let me just --

(Laughter)

Let me just say, ladies and gentlemen, it seems to me that what the President has done with the guidance and the wisdom of these distinguished guests here tonight is something that the business community has really asked for for a long time.

It seems to me that it's up to us to set up now, and help enforce and support this discipline. And I think we have a real responsibility now to back up the President, and these wonderful people who are really doing a great job in finally reaching where a great many of us hoped we would reach a long, long time ago.

Thank you all very much for being with us.

Thank you, guests, for being with us tonight.

The meetings adjourned, and Counsel will --

[Recorded proceedings end at this point.]

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

2-16-73

Draft/Schiff/2/15

Graham W. Watt, Director of the Office of Revenue Sharing, announced today a supplemental mailing of entitlement checks to various units of local government.

On February 9, every eligible Indian tribe and Alaskan native village was mailed a revenue sharing check for CY 1972 based on the proportion of the tribal population to the total county area population. In order to avoid an overpayment to other governmental units within the affected counties, the Office of Revenue Sharing withheld a percentage of the county area allocations based on roughly estimated population figures.

The supplemental checks represent an adjustment to governments in county areas where overestimates of tribal or village population had occurred.

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Rev. Sharing Masthead

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Feburary 16, 1973

SUPPLEMENTAL REVENUE SHARING CHECKS

MAILED TO INDIAN AND ALASKAN AREAS

The Office of Revenue Sharing today is mailing out nine supplemental checks to Indian tribes and Alaskan native villages, reflecting revised data on their entitlements for 1972.

The nine checks, totalling $307,521, go to cities and counties in four states: Alaska, New Mexico, North Dakota and South Dakota. The Greater Anchorage Area borough will receive almost $100,000, in ~~thx~~ its supplemental entitlement check, which is the largest of the checks being dispatched today.

The nine communities~~x~~ and the amounts to be received, follow under the states involved:

Alaska: Greater Anchorage area, $99,907; Nome, $33,715; Barrow, $35,893; Katzebue, $17,386.

New Mexico: McKinley County, $25,879; Gallup, $27,188.

North Dakota: Rolette County, $13,198.

South Dakota: Todd County, $33,826; Washabaugh County, $20,529.

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The supplemental checks bring up to date entitlents
areas
mailed last week(Feb. 9) to 331 ~~xxxxxxxxxx~~xin which Indian tribes or Alaskan native villageswere originally computed in the geographic or population data

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

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ATTENTION: FINANCIAL EDITOR

FOR RELEASE 6:30 P.M. February 16, 1973

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 24, 1972, and the other series to be dated February 22, 1973, which were invited on February 9, 1973, 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 24, 1973		:	182-day Treasury bills maturing August 23, 1973	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	98.640	5.380%	:	97.170	5.598%
Low	98.597	5.550%	:	97.098	5.740%
Average	98.621	5.455% 1/	:	97.142	5.653% 1/

72% of the amount of 91-day bills bid for at the low price was accepted
45% of the amount of 182-day bills bid for at the low price was accepted

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	:	Applied For	Accepted
Boston	$ 26,050,000	$ 23,250,000	:	$ 18,550,000	$ 6,550,000
New York	2,685,430,000	1,885,630,000	:	2,342,975,000	1,465,475,000
Philadelphia	15,675,000	15,675,000	:	4,600,000	4,600,000
Cleveland	21,130,000	21,130,000	:	14,130,000	14,130,000
Richmond	7,655,000	7,655,000	:	3,015,000	3,015,000
Atlanta	11,025,000	11,025,000	:	6,870,000	6,870,000
Chicago	200,385,000	186,385,000	:	175,125,000	125,125,000
St. Louis	38,795,000	37,795,000	:	25,270,000	22,270,000
Minneapolis	28,535,000	28,535,000	:	29,400,000	29,400,000
Kansas City	32,820,000	26,540,000	:	17,305,000	9,755,000
Dallas	34,200,000	25,200,000	:	46,420,000	36,420,000
San Francisco	166,240,000	131,240,000	:	114,660,000	76,660,000
TOTALS	$3,267,940,000	$2,400,060,000 a/		$2,798,320,000	$1,800,270,000 b/

a/ Includes $171,540,000 noncompetitive tenders accepted at the average price of 98.621
b/ Includes $ 66,555,000 noncompetitive tenders accepted at the average price of 97.142
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 5.61 % for the 91-day bills, and 5.90% for the 182-day bills.

Department of the TREASURY

WASHINGTON, D.C. 20220 TELEPHONE W04-2041

NEWS

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February 19, 1973

Note to Correspondents:

Attached is a copy of the letter of transmittal from the Secretary of the Treasury to the Speaker of the House proposing legislation to devalue the dollar by 10 percent by amending the Par Value Modification Act of 1972. A copy of the bill and background material are also attached. A similar letter was transmitted to the President of the Senate.

Attachments

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Proposed Modification of Par Value of Dollar

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THE SECRETARY OF THE TREASURY
WASHINGTON 20220

February 19, 1973

Dear Mr. Speaker:

There is transmitted herewith a draft bill, "To amend the Par Value Modification Act."

In a statement on behalf of the President on February 12, 1973, I announced our intention to propose legislation to implement a devaluation of the dollar by 10 percent. This step was proposed in combination with other actions taken in Europe and Japan to amend the structure of exchange rates agreed at the Smithsonian Institution in December 1971.

My statement, which is enclosed, explains the reasons for these exchange rate changes and other steps being taken to strengthen the competitive position of our factories and farms in world markets. Also enclosed is a background paper which reviews the events leading up to the February currency crisis, the exchange rates resulting from the agreed realignment, and the relationship of the realignment to broader reform of the international monetary and trading system.

The legislation I am submitting today would give Congressional approval to the change in the dollar exchange rate. It amends the Par Value Modification Act, P.L. 92-268, approved on March 31, 1972, by providing for establishment of a new par value of $1 equals 0.828948 Special Drawing Right or, in terms of gold, of $1 equals 0.023684 of a fine troy ounce of gold. 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.

In the past, our par value has been expressed only in terms of gold. The proposed bill expresses our par value in terms of both Special Drawing Rights and gold in order to emphasize the importance we attach to the enhanced role of Special Drawing Rights in the future development of the international monetary system.

The change in the par value of the dollar will increase the value of the United States gold reserves, Special Drawing Rights and gold tranche automatic drawing rights in the International Monetary Fund. There will also be increases in the dollar value of subscriptions to the international financial institutions.

The par value change will also have the consequence of requiring the United States to add 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 is applicable to all members and is designed to assure that contributions from all countries maintain their relative value when relationships among currencies change. It also assures that we do not lose out through devaluation in our share of the assets and voting power of these institutions. Authority to maintain the value of our international financial institution subscriptions and an authorization of appropriations for this purpose are contained in the Par Value Modification Act.

In addition, certain costs reflecting foreign exchange obligations will result from the change in par value. The enclosed tables and explanatory notes contain full details on all aspects of the increases in assets and liabilities resulting from the change in par value as well as an estimate of the maximum amount of appropriations to be requested to maintain the value of international financial institution subscriptions.

I urge early and favorable consideration of this important legislation.

It would be appreciated if you would lay the draft bill before the House of Representatives. A similar draft bill has been transmitted to the President of the Senate.

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

Sincerely yours,

George P. Shultz

George P. Shultz

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

Enclosures

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A BILL

To amend the Par Value Modification Act

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the first sentence of section 2 of the Par Value Modification Act (Public Law 92-268) is amended by striking the words "one thirty-eighth of a fine troy ounce of gold" and inserting in lieu thereof the following: "0.828948 Special Drawing Right or, the equivalent in terms of gold, of $1 equals 0.023684 of a fine troy ounce of gold".

COMPARATIVE TYPE SHOWING CHANGES IN EXISTING LAW
MADE BY PROPOSED BILL

Changes in existing law proposed to be made by the bill are shown as follows (existing law proposed to be omitted is enclosed in brackets, new matter is underscored):

Public Law 92-268

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 $1 equals [one thirty-eighth of a fine troy ounce of gold.] <u>0.828948 Special Drawing Right or, the equivalent in terms of gold, of $1 equals 0.023684 of a fine troy ounce of gold</u>. 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.

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FOR IMMEDIATE RELEASE

February 12, 1973

STATEMENT ON FOREIGN ECONOMIC POLICY
BY
SECRETARY OF THE TREASURY GEORGE P. SHULTZ

The United States, as do other nations, recognizes the need to reform and strengthen the framework for international trade and investment. That framework must support our basic objective of enhancing the living standards of all nations. It must encourage the peaceful competition that underlies economic progress and efficiency. It must provide scope for each nation -- while sharing in the mutual benefits of trade -- to respect its own institutions and its own particular needs. It must incorporate the fundamental truth that prosperity of one nation should not be sought at the expense of another.

This great task of reform is not for one country alone, nor can it be achieved in a single step. We can take satisfaction in what has been accomplished on a cooperative basis since the actions announced on August 15, 1971 clearly signaled our recognition of the need for decisive change.

-- Intense negotiations established an important fact in December 1971: mutual agreement can be reached on changes in the pattern of world exchange rates, including the parity of the United States dollar, in order to promote the agreed goal of a better balance in international trade and payments.

-- Monetary negotiations have been started by the "Committee of Twenty" on the premise that better ways must be found to prevent large payments imbalances which distort national economies, disturb financial markets, and threaten the free flow of trade. The United States has made practical and specific proposals for international monetary reform.

-- The groundwork is being laid for comprehensive trade negotiations. Those negotiations should look beyond industrial tariffs to encompass also other

barriers to the free flow of goods. They should assure fair competitive treatment of the products of all countries. They should also seek agreed ways of avoiding abrupt dislocations of workers and businesses.

In September 1972 the President told the financial leaders of the world that "The time has come for action across the entire front of international economic problems. Recurring monetary crises, such as we have experienced all too often in the past decade; unfair currency alignments and trading arrangements, which put the workers of one nation at a disadvantage with workers of another nation; great disparities in development that breed resentment; a monetary system that makes no provision for the realities of the present and the needs of the future -- all these not only injure our economies, they also create political tensions that subvert the cause of peace."

At the same meeting, I outlined the principles of a monetary system that would enable all nations, including the United States, to achieve and maintain overall balance in their international payments. Those principles would promote prompt adjustment and would provide equitable treatment for all nations -- large and small, rich and poor.

Yet, in recent months we have seen disquieting signs. Our own trade has continued in serious deficit, weakening our external financial position. Other nations have been slow in eliminating their excessive surpluses, thereby contributing to uncertainty and instability. In recent days, currency disturbances have rocked world exchange markets. Under the pressure of events, some countries have responded with added restrictions, dangerously moving away from the basic objectives we seek.

Progress in the work of the Committee of Twenty has been too slow and should move with a greater sense of urgency. The time has come to give renewed impetus to our efforts in behalf of a stronger international economic order.

To that end, in consultation with our trading partners and in keeping with the basic principles of our proposals for monetary reform, we are taking a series of actions designed to achieve three interrelated purposes:

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(a) to speed improvement of our trade and payments position in a manner that will support our effort to achieve constructive reform of the monetary system;

(b) to lay the legislative groundwork for broad and outward-looking trade negotiations, paralleling our efforts to strengthen the monetary system; and

(c) to assure that American workers and American businessmen are treated equitably in our trading relationships.

For these purposes:

First, the President is requesting that the Congress authorize a further realignment of exchange rates. This objective will be sought by a formal 10 percent reduction in the par value of the dollar from 0.92106 SDR to the dollar to 0.82895 SDR to the dollar.

Although this action will, under the existing Articles of Agreement of the International Monetary Fund, result in a change in the official relationship of the dollar to gold, I should like to stress that this technical change has no practical significance. The market price of gold in recent years has diverged widely from the official price, and under these conditions gold has not been transferred to any significant degree among international monetary authorities. We remain strongly of the opinion that orderly arrangements must be negotiated to facilitate the continuing reduction of the role of gold in international monetary affairs.

Consultations with our leading trading partners in Europe assure me that the proposed change in the par value of the dollar is acceptable to them, and will therefore be effective immediately in exchange rates for the dollar in international markets. The dollar will dec line in value by about 10 percent in terms of those currencies for which there is an effective par value, for example the Deutsche mark and the French franc.

Japanese authorities have indicated that the yen will be permitted to float. Our firm expectation is that the yen will float into a relationship vis-a-vis other currencies consistent with achieving a balance of payments equilibrium not dependent upon significant government intervention.

These changes are intended to supplement and work in the same direction as the changes accomplished in the Smithsonian Agreement of December 1971. They take into account recent developments and are designed to speed improvement in our trade and payments position. In particular, they are designed, together with appropriate trade liberalization, to correct the major payments imbalance between Japan and the United States which has persisted in the past year.

Other countries may also propose changes in their par values or central rates to the International Monetary Fund. We will support all changes that seem warranted on the basis of current and prospective payments imbalances, but plan to vote against any changes that are inappropriate.

We have learned that time must pass before new exchange relationships modify established patterns of trade and capital flows. However, there can be no doubt we have achieved a major improvement in the competitive position of American workers and American business.

The new exchange rates being established at this time represent a reasonable estimate of the relationships which -- taken together with appropriate measures for the removal of existing trade and investment restraints -- will in time move international economic relationships into sustainable equilibrium. We have, however, undertaken no obligations for the U.S. Government to intervene in foreign exchange markets.

Second, the President has decided to send shortly to the Congress proposals for comprehensive trade legislation. Prior to submitting that legislation, intensive consultations will be held with Members of Congress, labor, agriculture, and business to assure that the legislation reflects our needs as fully as possible.

This legislation, among other things, should furnish the tools we need to:

(i) provide for lowering tariff and non-tariff barriers to trade, assuming our trading partners are willing to participate fully with us in that process;

(ii) provide for raising tariffs when such action would contribute to arrangements assuring that American exports have fair access to foreign markets;

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Summary Table

Financial Effects of U.S. Devaluation

	$ Millions
I. On U.S. Financial Statements	
A. Increase in Assets	2518
B. Increase in Liabilities	1900
C. Net Increase in Assets	618
II. On Records of Contingent Liabilities	
Increase in Obligation to Make Additional Capital Subscription to the International Lending Institutions, if called	992
III. On Maximum Appropriation Required	2,225
IV. On Forecast Budgetary Expenditures	
FY 1973	0
FY 1974	12
FY 1975-1985	40 per annum

Financial Effects of U.S. Devaluation
(Explanatory Notes Attached)

I. On U.S. Financial Statements	$ Millions		Accruing to:
A. Increase in Assets			
1. Increase in Value of Reserves			
Gold	1,165		Treasury General Fund
Special Drawing Rights (SDR)	218		Exchange Stabilization Fund
Gold Tranche Automatic IMF Drawing Rights	52		Treasury General Fund
2. Increase in Value of U.S. Currency Subscriptions in the International Monetary Fund (IMF)	606		Treasury General Fund
3. Increase in Value of U.S. Participation in Capital of International Lending Institutions	477		
Total Assets		2,518	Treasury General Fund
B. Increase in Liabilities			Financed from:
1. Treasury Debt in Foreign Currencies	193		Exchange Stabilization Fund
2. Federal Reserve Obligations in Foreign Currencies	196		Federal Reserve Resources
3. Increase in Repayment of Obligations to IMF			Appropriations or
For Currency Drawings	150		Exchange of Assets
For SDR Allocations	278		Exchange Stabilization Fund
4. Required Additional Subscription to the IMF	606		Appropriations or Exchange of Assets
5. Obligation for Additional Capital Subscription to International Lending Institutions	477		Appropriations
Total Liabilities		1,900	
C. Net Increase in Assets		618	

II. On Records of Contingent Obligations	$ Millions	Financed from:
Increase in Obligation to make Additional Capital Subscription to the International Lending Institutions, if called	992	Appropriations

II. On Maximum Appropriation required	2,225

IV. On Forecast Cash Expenditures

FY 1973	0
FY 1974	12
FY 1975-1985	40 per annum

Notes to Table: "Financial Effects of U.S. Devaluation"

I. On U.S. Financial Statement

A. Increase in Assets -- Devaluation will result in increases in the dollar value of three types of assets: (1) reserve assets, (2) currency subscriptions in the International Monetary Fund, and (3) paid-in capital subscription to the international development lending institutions. The total increase in all three classes is $2,518 million.

1. Reserve Assets

Gold -- United States holdings now total $10,487 million. After devaluation the value of these holdings in current dollars will increase by 11.11% or $1,165 million. The increment in value of gold will result in a direct cash inflow into the Treasury of $1,165 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.

Special Drawing Rights (SDR) -- SDR's are an international reserve asset that are created by the IMF and allocated among members. These assets have a gold value and United States holdings now totalling $1,958 million will increase by 11.11% or $218 million.

Gold Tranche -- The gold tranche is the amount of our automatic regular drawing rights on the International Monetary Fund. These rights can be used by the United States to purchase or draw foreign currencies from the Fund to meet a balance of payments need. These rights, which are included in U.S. reserves, now total $469 million. They represent gold paid to the Fund in partial fulfillment of U.S. subscription obligations and will increase in value by 11.11% or $52 million.

2. Increase in value of our currency subscriptions in the International Monetary Fund

Seventy-five percent of our subscription to the IMF was paid in United States dollars but this subscription of $5,456 million was denominated on the books of the Fund in dollars of a fixed weight and fineness of gold. Thus, the value of this subscription will increase in terms of current dollars after devaluation to a total of $6,062 million -- an increase of $606 million. This increase in value allows us to increase our drawing rights, maintain our share of voting rights and allocations of Special Drawing Rights.

3. Increase in Value of U.S. participation in Capital of Development Lending Institutions

Paid-in investments in the World Bank, the International Development Association, the Inter-American Development Bank and the Asian Development Bank are also denominated in dollars of a fixed weight and fineness of gold. United States investments in these institutions will increase in value by $477 million. The increase for the Inter-American Development Bank will be $233 million, for the World Bank -- $71 million, for the International Development Association -- $161 million, and for the Asian Development Bank -- $12 million.

B. Increase in Liabilities

1. Treasury Debt in Foreign Currencies

The Treasury has outstanding $1,714 million in foreign currency borrowings -- $306 million in German marks and $1.4 billion in Swiss francs. Repayment of these obligations at maturity under the new rates of exchange are estimated to result in approximately $193 million additional expenditure of dollars. The actual amount of loss will vary depending upon the market rates at which the currencies are obtained for repayment. The liability for meeting this additional cost is borne by the Exchange Stabilization Fund. Thus, no appropriation or budgetary expenditures are involved.

2. Federal Reserve Obligations under Swaps

The Federal Reserve has outstanding mutual deposit arrangements or so-called "swaps" with foreign central banks totalling $1,639 million. The cost of buying foreign currencies to repay these swap obligations is estimated to increase by about $196 million over what it would have been prior to devaluation. The actual amount of loss will vary depending upon the market rates at which the currencies are obtained for repayment. The Federal Reserve will bear this additional cost and no appropriation or budgetary expenditures are required.

3. Increase in Repayment Obligation to the IMF

-- For Currency Drawings

The United States now has a drawing outstanding, representing U.S. purchases of foreign exchange from the International Monetary Fund in the amount of $1.4 billion. The International Monetary Fund Articles of Agreement require the United States to maintain the value of these dollars held by the Fund in terms of gold. The payments required, in the form of a letter of credit, will amount to $150 million.

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-- For SDR Allocations

Special Drawing Rights allocated to the United States are also denominated in terms of gold. The United States has been allocated a total of $2,491 million in Special Drawing Rights and should the SDR scheme ever be liquidated, the United States would incur an increased liability of $278 million.

4. Required Additional Subscriptions to the IMF

In addition to the currency drawing maintenance of value described under item 3 above, the United States has a maintenance of value obligation on its currency subscription in the Fund of $5,455 million. Under Fund rules, this currency subscription must be maintained in gold value requiring a payment of $606 million in the form of a letter of credit.

5. Obligations for Additional Capital Subscriptions to International Financial Institutions

The United States will incur an increased paid-in capital obligation to the international development institutions totalling $477 million. The amounts are: World Bank $71 million, Inter-American Bank $233 million, Asian Development Bank $12 million, and the International Development Association $161 million. These amounts will be financed from an appropriation requested of Congress.

This maintenance of value obligation stems from similar, but not identical, provisions in the agreements governing each of the international lending institutions providing that each member country that devalues its currency must maintain the value of its contributions as measured by a common yardstick, in this case 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 changes in exchange rates. This provision has worked in favor of the United States by assuring that other countries that devalue their currencies do not diminish the value of their contributions. Thus, the burden-sharing principle is not adversely affected by currency devaluations. The maintenance of value provision also assures that our share in the assets and voting rights in these institutions is not impaired by our devaluation.

All other countries have fulfilled their maintenance of value obligations. In total, there have been over 200 par value modifications in the International Monetary Fund and in each case the country concerned has fulfilled its maintenance of value obligations in the international financial institutions. Moreover, most countries, especially the large industrial countries, have fulfilled these obligations promptly. For example, France devalued in 1957, 1958 and 1969. In the first instance, maintenance of value was made on the date of devaluation, in the second, two days after, and in the third, three days after. In the case of the United Kingdom's devaluation in 1967, maintenance of value was made 33 days after and in the case of Canada in 1962, 28 days after.

C. Net increase in Assets -- Increases in assets total about $2.5 billion; increases in liabilities total about $1,900 million; the result is a net increase in assets of about $618 million.

II. On Records of Contingent Obligations

Increase in Obligation to make Additional Capital Subscription to the IFI's, if called.

-- 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 11.11% in our callable capital obligation. The U.S. callable capital obligation in the World Bank is $703 million, in the IDB it is $205 million, and in the ADB it is $12 million. The total increase in the current dollar amount of these callable capital subscriptions amounts to $920 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 $920 million will be requested.

-- Of the total maintenance of value for the IDB-FSO of $241 million, $72 million is a contingent liability representing loans that have been made in dollars but are repayable in either dollars or other currencies. If repaid in other currencies, and this is the most likely prospect, the United States will have no maintenance of value obligations on this sum.

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III. On Maximum Appropriation Required

Appropriations will be required for the paid-in capital subscriptions to the international lending institutions and for the callable capital subscriptions to these institutions. Payments to the International Monetary Fund can be handled as either an appropriation or as an exchange of assets. The maximum appropriations to be requested are as follows:

	($ millions)
paid-in capital	477
callable capital	992
IMF	756
	2,225

The maximum amounts for each institution are as follows:

[in millions of dollars]

	Callable	To be paid in
IBRD	703	71
IDA		161
IDB	277	233
ADB	12	12
subtotal	992	477
IMF	0	756
Total	992	1,233

These amounts are approximate. The exact amount of maintenance of value obligations can be determined only on the basis of holdings on the day of formal change in par value.

IV. On Forecast Budgetary Expenditure

Budgetary expenditures are expected in the near future only from a portion of the obligations for increased capital to the international lending institutions. In most cases these obligations will be met, at least initially, not by cash expenditures but rather by the issue of letters of credit, which do not constitute budget expenditures. All of the paid-in capital subscriptions will be paid in letters of credit except for the Asian Development Bank. In the case of that institution, one-half of the paid-in subscription is required to be paid in cash. Moreover, the letter of credit portion is expected to be drawn during fiscal year 1974. Thus, the full maintenance of value amount of $12 million is expected to be paid to the Asian Development Bank in cash during fiscal year 1974.

No draw-downs on the other letters of credit are expected in fiscal years 1973 and 1974. It is expected that draw-downs will begin in fiscal year 1975 and will be spread out evenly over about an 11-year period resulting in draw-downs of $40 million per annum.

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PROPOSED MODIFICATION OF PAR VALUE OF DOLLAR,
Background Material
Department of the Treasury - February 1973

CONTENTS

Department of the Treasury
February 17, 1973

I. Introduction

1. The Administration has proposed legislation authorizing and directing the Secretary of the Treasury to take the necessary steps to modify the par value of the dollar in the International Monetary Fund, by an amount corresponding to an increase of 11.11 percent in the value of one Special Drawing Right in the IMF, or, in terms of gold, of 11.11 percent in the official value of an ounce of gold. This modification is equivalent to a reduction of 10 percent in the value of the dollar stated in terms of Special Drawing Rights per dollar, from 0.921053 SDR to 0.828948 SDR, or to the equivalent in terms of gold of one dollar equals 0.023684 fine troy ounces of gold. This corresponds to a value of $42.22 per fine troy ounce of gold.

II. Relation of this Proposal to Foreign Economic Policy

2. The proposed change in par value is part of a program outlined in a Statement on Foreign Economic Policy made by Secretary of the Treasury George P. Shultz on February 12 (See Annex 1). This program has three objectives:

(a) to reinforce our trade and payments position in a manner that will support our effort to achieve constructive reform of the monetary system;

(b) to lay the legislative groundwork for broad and outward-looking trade negotiations, paralleling our efforts to strengthen the monetary system; and

(c) to assure that American workers and American businessmen are treated equitably in our trading relationships.

3. The legislation proposed is the first of three principal actions aimed at these objectives. It would authorize the United States to change the par value of the dollar in a manner that achieves a realignment of exchange rates.

4. As a second step, the President has decided shortly to send to Congress proposals for comprehensive trade legislation. This legislation is needed to provide the tools that will permit us to take part in a mutual lowering of tariff and non-tariff barriers to trade, assuming that our trading partners are willing to participate fully with us in that process. It should also provide necessary tools to help assure fair access to foreign markets for American exporters. It should, further, include means to safeguard particular markets and types of production from disruption that results from rapid changes in the impact of foreign trade, and to protect the United States external position from large and persistent deficits.

5. The Secretary of the Treasury also announced the intention to phase out the controls over the outflow of United States investment funds by December 31, 1974. The controls to be so phased out are the Interest Equalization Tax, the limitations imposed by the Commerce Department's Office of Foreign Direct Investment, and the Voluntary Foreign Credit Restraint program of the Board of Governors of the Federal Reserve System.

6. Taken together, the actions proposed in the fields of money, trade and investment, as well as actions taken by other countries, should help to direct the world economy toward conditions of international equilibrium, and to do so in a context of more competitive freedom for producers and investors both here and abroad.

7. In connection with the Secretary's announcement here, a number of other countries have stated that they will maintain their previous par or central values, so that the central rates or par values of their currencies will appreciate by 11.1 per cent in terms of the dollar. Japan is permitting its currency to float for the time being, and the market rate has appreciated relative to the U.S. dollar by an amount substantially in excess of 11.1 percent. The United Kingdom and Italy also have floating currencies and their currencies have appreciated against the dollar by smaller amounts. There has been no significant appreciation thus far in the Canadian dollar. The new pattern of world exchange rates provides a basis for a thrust toward a viable equilibrium in world payments.

8. We believe the realignment, taking account of the floating of a number of important currencies, will produce a satisfactory and fair set of exchange rate relationships. While a major step forward, however, exchange rate changes

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cannot substitute for long-term revisions in the monetary and trading system. We contemplate vigorous pursuit of international negotiations looking toward a more balanced economic order for the longer run, and for fairer treatment of American workers and producers. Moreover, the success of the action taken requires the effective management of the domestic economy of the United States. Budgetary restraint, appropriate monetary policy and wage-price stabilization must be pursued with vigor to provide an essential foundation for achieving the stronger international competitive position necessary for our economy and for a stable monetary order.

III. World Payments in 1972 and the Exchange Crisis of Early 1973

9. Following the Smithsonian realignment in December 1971, there was a gradual return to a calmer situation in the exchange markets. However, this period of relative tranquility was punctuated in the middle of 1972 by speculation directed against the pound sterling. As a result of this pressure, the pound sterling was allowed to float and the market rate depreciated moderately below the central value fixed under the Smithsonian arrangement. During this period in the middle of the year nearly one-half of the overall 1972 deficit of about $10 billion in our official reserve transactions account took place. Following this period of disruption in the markets, more orderly conditions were again restored.

10. For the year as a whole, this United States balance on official reserve transactions of just over $10 billion was about one-third of the extremely large total of nearly $30 billion in 1971. This was, however, still much larger than the highest deficit figure of about three and a half billion dollars during the decade of the sixties. The net capital outflow, if we include in this category the large residual item not clearly identified, explains the smaller overall deficit in 1972.

11. On the other hand, the merchandise trade deficit, at $6.8 billion for the year, was larger by $4 billion than the 1971 figure. The bilateral trade deficit with Japan rose by nearly a billion dollars, to $4 billion. The net trade position with Western Europe also worsened by 1-1/2 billion dollars, and an equal deterioration took place with the developing countries of Asia and Africa, a category that includes our growing petroleum imports.

12. To a considerable extent this result was not unexpected. In the initial months an exchange adjustment may not produce favorable results in terms of export volume, while imports continue to be acquired at higher dollar prices. The strong growth rate of the U.S. economy in 1972 stimulated a rising volume of imports, while other industrial economies showed more moderate year-to-year expansion, with a corresponding slower growth in their demand for our exports. Oil imports were also rising for reasons related to that commodity, though there were favorable developments in our exports to the Communist areas. Moreover, in the latter part of the year, the United States was able to report substantial progress in restraining inflation at a time when prices and costs were rising more rapidly in most other industrial countries.

13. Allowing for these factors, the trade deficit in the second half of 1972 appeared to show a levelling off from the sharp decline of 1971, and the prospect for 1973 could reasonably be one of some improvement. The question, however, was whether this improvement would come rapidly enough, and be large enough, to provide a firm basis for confidence in 1973. At the end of the year, it had become evident that there still remained a large disequilibrium in the current goods and services accounts. Our monthly trade figures in November and December failed to bear out earlier signs of gradual improvement. Moreover, the very large and persistent trade and current account surplus of Japan remained a prominent feature of the world disequilibrium in payments. It also appeared that for the year as a whole the enlarged European Community might have a current account surplus at about the same level as the Japanese, or about $6 billion. For December, Germany reported a substantial bulge in its trade surplus, even though the German current accounts for the year as a whole did not show a large surplus.

14. These developments raised questions as to whether the Smithsonian exchange rate alignment, and other actions of the past 18 months (including our progress toward restoring price stability), even though beginning to show beneficial effects, could itself be adequate to bring sufficiently rapid and complete correction of the persistent underlying disequilibria in world trade and payments. Recognizing that the adjustment process might not be proceeding with sufficient vigor, the Administration was actively in touch with our major trading partners, particularly the Japanese, calling their attention to the need for their cooperation in dealing with the imbalances.

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15. A period of renewed exchange speculation was touched off by the Italian decision, taken on the weekend of January 20, to establish a dual exchange market. The Italian reserve position had been weakening for some time through substantial capital movements. This outflow, which began in the middle of the year, appeared to have been related to political factors as well as uncertainty about the effect of rising costs in Italy on the Italian trade position -- even though tourism and other invisible items gave Italy an extremely strong current account surplus.

16. This announcement was followed by a sizable bulge in the persistent movement of funds from Italy into Switzerland. On January 23, the Swiss authorities suspended intervention in the exchange market, and the Swiss franc appreciated against the dollar and dollar-pegged currencies. This action appears to have triggered very large and growing purchases of German DM and Japanese yen, totalling about $7 billion, by February 9. The German authorities adopted emergency measures to tighten their restraints on inflows of funds during the week, but without appreciable effect in dampening the massive inward movements.

17. German authorities declared their intention not to revalue their rate by unilateral action, out of concern over their competitive position with respect to their closest trading partners. In these circumstances, market pressures were spreading to other currencies and security markets and money markets around the world were affected by the currency speculation and uncertainty. In these circumstances, temptations to resort to unilateral defensive action and reinforced controls were strong, but this course of events promised little progress toward dealing with the underlying imbalances in the payments of the United States and other countries.

18. Against this background, the United States undertook to explore with Japan and with several European countries the possibilities for a cooperative solution that would halt the crisis, establish a new pattern of exchange rates that would be appropriate, provide strong thrust toward correction of the underlying imbalances, and encourage fruitful negotiations in reshaping the structure of the monetary and trading system.

19. Under Secretary Volcker left Washington on Wednesday, February 7, for a series of meetings in Japan and in Europe. These conversations, among other points, considered whether the willingness of the United States to take overt action to devalue the dollar, would produce an appropriate pattern of exchange rates. In the course of these discussions, it became

apparent that this approach provided a means of achieving the needed results in a manner that met the needs of all major parties. There was a common and heartening recognition of the mutual need to reinforce the adjustment of payments imbalances and this cooperative spirit has been evident among many other members of the Fund, who have agreed to allow their exchange rates to reflect the appreciation of the dollar.

20. By taking such an initiative at this time and participating in such a cooperative solution, we were able to convert a crisis into an opportunity. The decisions taken posed difficulties for all the participants in the realignment. However, the consensus was clear that these decisions were required to achieve the needed and desired results, including particularly improvement in the competitive position of the United States.

21. In its main elements, the new structure of exchange rates and exchange policies can now be identified. Information is not yet available for all the members of the Fund, but the table in Annex 3 lists the actions taken by OECD countries. Broadly speaking, they fall into four categories -- (a) countries which, by maintaining their existing par values, will permit 11.11 percent appreciation vis-a-vis the dollar, (b) a few countries fixing a new rate at a smaller appreciation against the dollar, (c) several developing countries in the OECD group that followed the depreciation of the dollar by the same amount, and (d) countries floating for the time being.

22. In the first category appear the Benelux countries, France, Germany, Austria, Australia, Denmark, Norway and Spain. In the second group, Sweden, Finland and Portugal appreciated by 5-7 percent. The third category includes Greece, Iceland, Turkey and Yugoslavia. Finally, the floating group includes not only Canada and the United Kingdom, which were floating before February 1973, but also, for the present, Italy, Switzerland and Japan. In the case of Japan, Secretary Shultz has indicated our firm expectation that the yen will float into a relationship vis-a-vis other currencies that is consistent with achieving a balance of payments equilibrium not dependent upon significant government intervention. In the market to date the Japanese yen has appreciated about 14 percent from the actual trading level on February 9, 1973.

23. Annex 2 shows the average appreciation against the dollar for all OECD currencies, using February 16 market rates where no central rate or par value has been announced, together with the corresponding estimates for the Smithsonian realignment. The two results are quite similar.

The cumulative effect of the two realignments taken together is an average appreciation against the dollar, calculated on the basis of U.S. cents per foreign currency unit, of 15.5 percent since April 30, 1971. If Canada is excluded, the average appreciation is about 23 percent. These results are derived as a weighted average of the rate changes, using as weights the trade of the United States with the country in question.

24. Important as it is, exchange rate realignment alone can be only one part of a successful effort to deal with payments imbalances and to lay the basis for a well-functioning international economic order. We must reinforce this action by appropriate domestic policies. In the international field there is still much to be done to establish fair and equitable competitive conditions in international trading arrangements and trade policies and practices.

25. To support the exchange rate action, American producers must have equitable access to foreign markets. Their opportunities have too frequently been closed or restricted by administrative barriers, controls and preferences. The rules, standards and procedures governing trading relationships in many instances no longer apply equitably or effectively, and need extensive reform, like those of the international monetary system. We propose to deal with foreign barriers to trade. In doing so, we must also recognize that the United States can be cited for such barriers in some areas. The trade legislation now under consideration will provide the tools essential for a concerted attach on these problems.

26. The decisions taken here and abroad as a result of the recent exchange crisis are entirely consistent with the major thrust of the United States proposals for the long-term reform of the international monetary system. More broadly, they underline our basic principle that any meaningful and stable international monetary system must rest on the determination of the major participant countries to seek and attain an equilibrium in their payments structures.

IV. Financial Aspects of the Par Value Change

27. The par value change will result in increases in the dollar value of United States reserve assets -- gold, Special Drawing Rights and gold tranche automatic drawing rights in the International Monetary Fund -- in the amount of $1.4 billion. There will also be increases in the dollar value of subscriptions to the international financial institutions totalling about $1.1 billion.

28. These increases in the value of assets are partially offset by increases in direct and contingent liabilities for international financial institutions totalling about $2.5 billion as well as increases in repayment costs of obligations denominated in foreign currencies amounting to about $389 million. A separate submission attached to the par value modification amendment contains the details of the effect of the par value change on U.S. assets and liabilities.

29. Only the maintenance of value liabilities to the international financial institutions will require appropriations. Authority to maintain the value of our international financial institutions subscriptions and an authorization of appropriations for this purpose are contained in the Par Value Modification Act. A maximum appropriation of $2.3 billion will be requested.

30. This appropriation will have limited budgetary effect. This results from the fact that (a) $1.8 billion of our liabilities to the international financial institutions represents monetary exchanges of assets, and contingent liabilities are not expected to be called, and (b) because in almost all cases payments to these institutions are made in letters of credit which are drawn down gradually. In fact, no expenditures are anticipated in FY 1973, $12 million in 1974, and thereafter at a rate of about $40 million a year over ten years.

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ANNEX 1

FOR IMMEDIATE RELEASE

February 12, 1973

STATEMENT ON FOREIGN ECONOMIC POLICY
BY
SECRETARY OF THE TREASURY GEORGE P. SHULTZ

The United States, as do other nations, recognizes the need to reform and strengthen the framework for international trade and investment. That framework must support our basic objective of enhancing the living standards of all nations. It must encourage the peaceful competition that underlies economic progress and efficiency. It must provide scope for each nation -- while sharing in the mutual benefits of trade -- to respect its own institutions and its own particular needs. It must incorporate the fundamental truth that prosperity of one nation should not be sought at the expense of another.

This great task of reform is not for one country alone, nor can it be achieved in a single step. We can take satisfaction in what has been accomplished on a cooperative basis since the actions announced on August 15, 1971 clearly signaled our recognition of the need for decisive change.

-- Intense negotiations established an important fact in December 1971: mutual agreement can be reached on changes in the pattern of world exchange rates, including the parity of the United States dollar, in order to promote the agreed goal of a better balance in international trade and payments.

-- Monetary negotiations have been started by the "Committee of Twenty" on the premise that better ways must be found to prevent large payments imbalances which distort national economies, disturb financial markets, and threaten the free flow of trade. The United States has made practical and specific proposals for international monetary reform.

-- The groundwork is being laid for comprehensive trade negotiations. Those negotiations should look beyond industrial tariffs to encompass also other

barriers to the free flow of goods. They should assure fair competitive treatment of the products of all countries. They should also seek agreed ways of avoiding abrupt dislocations of workers and businesses.

In September 1972 the President told the financial leaders of the world that "The time has come for action across the entire front of international economic problems. Recurring monetary crises, such as we have experienced all too often in the past decade; unfair currency alignments and trading arrangements, which put the workers of one nation at a disadvantage with workers of another nation; great disparities in development that breed resentment; a monetary system that makes no provision for the realities of the present and the needs of the future -- all these not only injure our economies, they also create political tensions that subvert the cause of peace."

At the same meeting, I outlined the principles of a monetary system that would enable all nations, including the United States, to achieve and maintain overall balance in their international payments. Those principles would promote prompt adjustment and would provide equitable treatment for all nations -- large and small, rich and poor.

Yet, in recent months we have seen disquieting signs. Our own trade has continued in serious deficit, weakening our external financial position. Other nations have been slow in eliminating their excessive surpluses, thereby contributing to uncertainty and instability. In recent days, currency disturbances have rocked world exchange markets. Under the pressure of events, some countries have responded with added restrictions, dangerously moving away from the basic objectives we seek.

Progress in the work of the Committee of Twenty has been too slow and should move with a greater sense of urgency. The time has come to give renewed impetus to our efforts in behalf of a stronger international economic order.

To that end, in consultation with our trading partners and in keeping with the basic principles of our proposals for monetary reform, we are taking a series of actions designed to achieve three interrelated purposes:

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(a) to speed improvement of our trade and payments position in a manner that will support our effort to achieve constructive reform of the monetary system;

(b) to lay the legislative groundwork for broad and outward-looking trade negotiations, paralleling our efforts to strengthen the monetary system; and

(c) to assure that American workers and American businessmen are treated equitably in our trading relationships.

For these purposes:

First, the President is requesting that the Congress authorize a further realignment of exchange rates. This objective will be sought by a formal 10 percent reduction in the par value of the dollar from 0.92106 SDR to the dollar to 0.82895 SDR to the dollar.

Although this action will, under the existing Articles of Agreement of the International Monetary Fund, result in a change in the official relationship of the dollar to gold, I should like to stress that this technical change has no practical significance. The market price of gold in recent years has diverged widely from the official price, and under these conditions gold has not been transferred to any significant degree among international monetary authorities. We remain strongly of the opinion that orderly arrangements must be negotiated to facilitate the continuing reduction of the role of gold in international monetary affairs.

Consultations with our leading trading partners in Europe assure me that the proposed change in the par value of the dollar is acceptable to them, and will therefore be effective immediately in exchange rates for the dollar in international markets. The dollar will decline in value by about 10 percent in terms of those currencies for which there is an effective par value, for example the Deutsche mark and the French franc.

Japanese authorities have indicated that the yen will be permitted to float. Our firm expectation is that the yen will float into a relationship vis-a-vis other currencies consistent with achieving a balance of payments equilibrium not dependent upon significant government intervention.

These changes are intended to supplement and work in the same direction as the changes accomplished in the Smithsonian Agreement of December 1971. They take into account recent developments and are designed to speed improvement in our trade and payments position. In particular, they are designed, together with appropriate trade liberalization, to correct the major payments imbalance between Japan and the United States which has persisted in the past year.

Other countries may also propose changes in their par values or central rates to the International Monetary Fund. We will support all changes that seem warranted on the basis of current and prospective payments imbalances, but plan to vote against any changes that are inappropriate.

We have learned that time must pass before new exchange relationships modify established patterns of trade and capital flows. However, there can be no doubt we have achieved a major improvement in the competitive position of American workers and American business.

The new exchange rates being established at this time represent a reasonable estimate of the relationships which -- taken together with appropriate measures for the removal of existing trade and investment restraints -- will in time move international economic relationships into sustainable equilibrium. We have, however, undertaken no obligations for the U.S. Government to intervene in foreign exchange markets.

Second, the President has decided to send shortly to the Congress proposals for comprehensive trade legislation. Prior to submitting that legislation, intensive consultations will be held with Members of Congress, labor, agriculture, and business to assure that the legislation reflects our needs as fully as possible.

This legislation, among other things, should furnish the tools we need to:

(i) provide for lowering tariff and non-tariff barriers to trade, assuming our trading partners are willing to participate fully with us in that process;

(ii) provide for raising tariffs when such action would contribute to arrangements assuring that American exports have fair access to foreign markets;

(iii) provide safeguards against the disruption of particular markets and production from rapid changes in foreign trade; and

(iv) protect our external position from large and persistent deficits.

In preparing this legislation, the President is particularly concerned that, however efficient our workers and businesses, and however exchange rates might be altered, American producers be treated fairly and that they have equitable access to foreign markets. Too often, we have been shut out by a web of administrative barriers and controls. Moreover, the rules governing trading relationships have, in many instances, become obsolete and, like our international monetary rules, need extensive reform.

We cannot be faced with insuperable barriers to our exports and yet simultaneously be expected to end our deficit.

At the same time, we must recognize that in some areas the United States, too, can be cited for its barriers to trade. The best way to deal with these barriers on both sides is to remove them. We shall bargain hard to that end. I am convinced the American workers and the American consumer will be the beneficiaries.

In proposing this legislation, the President recognizes that the choice we face will not lie between greater freedom and the status quo. Our trade position must be improved. If we cannot accomplish that objective in a framework of freer and fairer trade, the pressures to retreat inward will be intense.

We must avoid that risk, for it is the road to international recrimination, isolation, and autarky.

Third, in coordination with the Secretary of Commerce, we shall phase out the Interest Equalization Tax and the controls of the Office of Foreign Direct Investment. Both controls will be terminated at the latest by December 31, 1974.

I am advised that the Federal Reserve Board will consider comparable steps for their Voluntary Foreign Credit Restraint Program.

The phasing out of these restraints is appropriate in view of the improvement which will be brought to our underlying payments position by the cumulative effect of the exchange rate changes, by continued success in curbing inflationary tendencies, and by the attractiveness of the U.S. economy for investors from abroad. The termination of the restraints on capital flows is appropriate in the light of our broad objective of reducing governmental controls on private transactions.

The measures I have announced today -- the realignment of currency values, the proposed new trade legislation, and the termination of U.S. controls on capital movements -- will serve to move our economy and the world economy closer to conditions of international equilibrium in a context of competitive freedom. They will accelerate the pace of successful monetary and trade reform.

They are not intended to, and cannot, substitute for effective management of our domestic economy. The discipline of budgetary and monetary restraint and effective wage-price stabilization must and will be pursued with full vigor. We have proposed a budget which will avoid a revival of inflationary pressure in the United States. We again call upon the Congress, because of our international financial requirement as well as for the sake of economic stability at home, to assist in keeping Federal expenditures within the limits of the President's budget. We are continuing a strong system of price and wage controls. Recent international economic developments reemphasize the need to administer these controls in a way that will further reduce the rate of inflation. We are determined to do that.

The cooperation of our principal trading and financial partners in developing a joint solution to the acute difficulties of the last few days has been heartening. We now call upon them to join with us in moving more rapidly to a more efficient international monetary system and to a more equitable and freer world trading system so that we can make adjustments in the future without crises and so that all of our people can enjoy the maximum benefits of exchange among us.

oOo

WEIGHTED AVERAGE APPRECIATION OF FOREIGN CURRENCIES AGAINST THE DOLLAR, AS OF FEBRUARY 16, 1973
(Percent change in U.S. cents per foreign currency unit; based on U.S. bilateral trade weights in 1970)

	Resulting From		
	Smithsonian Realignment 1/	February 1973 Rate Changes to date 2/	Combined Changes, Smithsonian and February 1973 3/
OECD Countries	8.0	7.3	15.5
OECD, excluding Canada	11.8	10.8	23.0

1/ Based on changes from April 30, 1971. December 21, 1971 market rate for Canada used.

2/ Based on announced par values or central rates; or, where such rates have not been announced, on market rates as of February 16, 1973. For all countries except Canada and the United Kingdom, these February rates are compared with the Smithsonian par values or central rates in deriving the percentage of appreciation in the middle column. For the United Kingdom, the February 1973 change is calculated by comparing the market rate on February 16 with a base rate of $2.35, which was roughly the average market rate prevailing in the weeks preceding the exchange disturbances.

3/ Also includes par value changes by Australia and Iceland in December 1972. These changes are not included in computing the middle column above. In all cases, the combined changes represent the percentage appreciation of the February rates used over the par values or market rates prevailing on April 30, 1971.

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Exchange Rates and Exchange Rate Changes Against the Dollar by OECD 1/ Countries As of February 16, 1973

Country	% Change Against Dollar 2/	New Exchange Rate (foreign currency units per dollar)
Australia	11.11	0.71
Austria	11.11	20.97
Belgium	11.11	40.33
Canada	Float (0.7 as of Feb. 16) 3/	1.007 4/
Denmark	11.11	6.28
Finland	5.13	3.90
France	11.11	4.60
Germany	11.11	2.90
Greece	-0-	30.00
Iceland	-0-	98.56
Italy	Float (1.9 as of Feb. 16) 3/	570.00 4/
Japan	Float (14.3 as of Feb. 16) 3/	263.50 4/
Luxembourg	11.11	40.33
Netherlands	11.11	2.92
Norway	11.11	5.98
Portugal	6.86	25.50
Spain	11.11	58.03
Sweden	5.55	4.56
Switzerland	Float (5.7 as of Feb. 16) 3/	3.37 4/
Turkey	-0-	14.00
United Kingdom	Float (2.3 as of Feb. 16) 3/	2.44 4/
Yugoslavia	-0-	17.00

1/ Members of the Organization of Economic Cooperation and Development.

2/ Expressed as percent change in U.S. cents per foreign currency unit compared with par value or central rates prevailing prior to February 13, 1973.

3/ For currencies which are floating, percentage changes show changes in market rates between Feb. 9th and Feb. 16, 1973. For Switzerland, market rate has changed 5.7 % since February 9, or by 11.5 % since the beginning of the Swiss franc float.

4/ For currencies which are floating, market rates as of February 16 are shown.

February 17, 1973

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ANNEX 4

CHARTS

CHART I

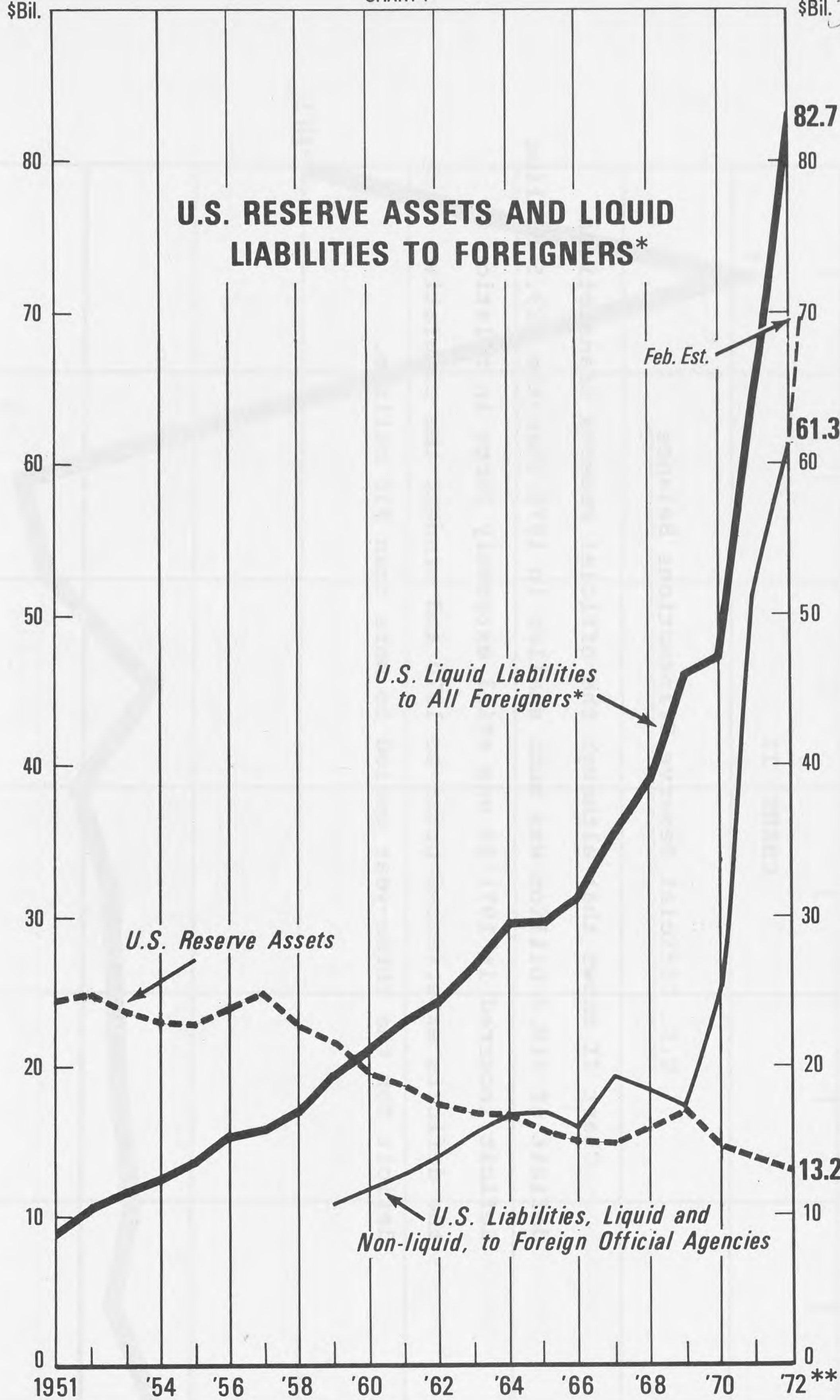
U.S. Reserve Assets and Liquid Liabilities to Foreigners

Chart I shows how our short-term liabilities to foreigners continued their dramatic increase in 1972, reaching a level more than six times our reserve assets by the end of the year with still further increases early in 1973.

Our liabilities to foreign monetary authorities, which are included in the figure for total liquid liabilities to foreigners, are currently estimated, including amounts purchased by a number of central banks during the recent period of speculation, to be nearly $70 billion.

Since the suspension of the convertibility of the dollar into gold on August 15, 1971, there has been little change in U.S. reserve assets except for the adjustment in the value of our gold holdings from $35 per fine ounce to $38 per ounce and the allocation to the U.S. of Special Drawing Rights of $700 million in 1972.

CHART I



* Including Non-liquid Liabilities to Foreign Official Agencies.

** Normal Release Date February 27, 1973.

Source: TREASURY BULLETIN, January 1973.

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CHART II

U.S. Official Reserve Transactions Balance

Chart II shows that although the official reserve transactions deficit of $10.2 billion was much smaller in 1972 than the $29.5 billion deficit incurred in 1971 it was still extremely large in relation to the deficits experienced prior to 1970 and brought the cumulative deficit for the three-year period to more than $50 billion.

CHART II

OFFICIAL RESERVE TRANSACTIONS BALANCE

* Includes SDR allocation of $867 million in 1970, $717 million in 1971 and $710 million in 1972

** Preliminary

SOURCE: SURVEY OF CURRENT BUSINESS, JUNE AND DEC. 1972.

CHART III.

BALANCE ON GOODS, SERVICES, AND REMITTANCES
AND
BALANCE ON GOVERNMENT GRANTS AND CREDITS AND PRIVATE LONG-TERM CAPITAL

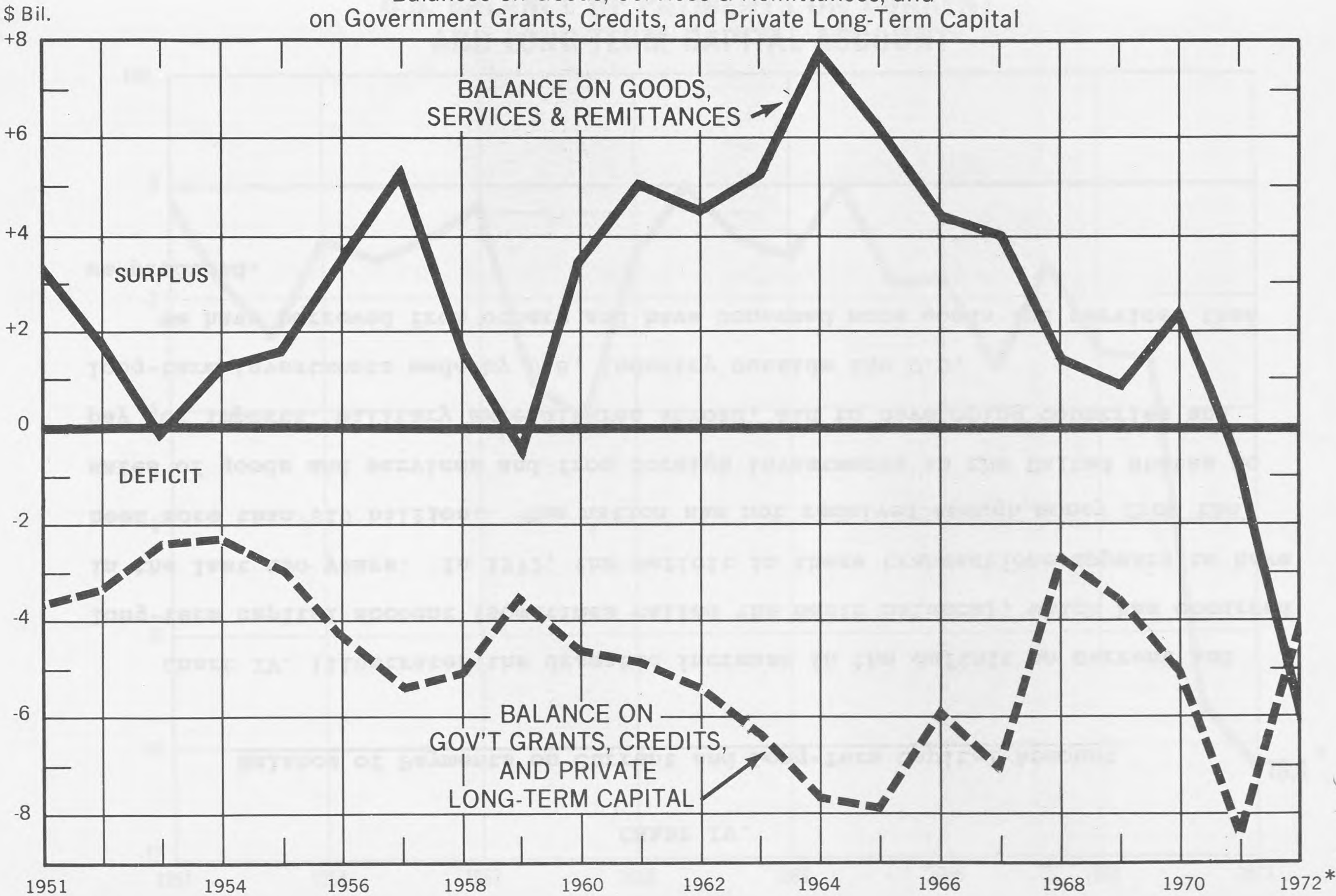
Chart III. traces changes in the balance on goods, services, and private remittances, often called the current account excluding government grants. The United States has experienced an almost uninterrupted deterioration in this balance since 1964,when there was a surplus of nearly $8 billion, with the most serious deterioration occurring in 1972. The deficit in 1972 was about $6 billion.

Chart III. also traces trends in the balance of government grants and credits and private long-term capital transactions. The movements of this balance are irregular. In 1971, the U.S. experienced a deficit of $8.5 billion but in 1972 that deficit appears to have been cut approximately in half.

CHART III

COMPOSITION OF U.S. BALANCE OF PAYMENTS

Balances on Goods, Services & Remittances, and
on Government Grants, Credits, and Private Long-Term Capital



* Estimate

Source: SURVEY OF CURRENT BUSINESS

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CHART IV.

Balance of Payments on Current and Long-Term Capital Account

Chart IV. illustrates the dramatic increase in the deficit on current and long-term capital account (sometimes called the basic balance), which has occurred in the last two years. In 1972, the deficit in these transactions appears to have been more than $10 billion. The nation has not received enough money from the sales of goods and services and from foreign investments in the United States to pay for imports, military expenditures abroad, aid to developing countries and long-term investments made by U.S. industry outside the U.S.

We have borrowed from others and have consumed more goods and services than we produced.

CHART IV

U.S. BALANCE OF PAYMENTS ON CURRENT AND LONG-TERM CAPITAL ACCOUNT

* Estimate

Source: SURVEY OF CURRENT BUSINESS

CHART V

U.S. Merchandise Trade

Chart V portrays the severe deterioration in our merchandise trade balance from 1964 to mid 1972 when a levelling off occurred.

Our position is best when foreign countries are operating at or near capacity levels and our own economy is operating with significant slack. 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, when the domestic economy is under inflationary strain our trade position tends to be weaker, particularly if some of our major trading partners are going through periods of relatively excess capacity. The very small trade surplus recorded in 1968 reflects these conditions.

Cyclical conditions had a highly favorable effect on our actual balance in 1971 and a much smaller but still favorable effect in 1972. The change in the cyclical conditions was one of the major reasons for the worsening of the balance between 1971 and 1972.

Other important factors were the rising demand for imports of fuel and the initial effects of the 1971 realignment of exchange rates which probably were somewhat adverse in 1972.

CHART V

U.S. MERCHANDISE TRADE

SOURCE: SURVEY OF CURRENT BUSINESS: June and December 1972
* 1st half at annual rate
** Preliminary

CHART VI

Net Investment Income

Chart VI traces the trends in net investment income from 1960 through 1972. During this period there was a very substantial rise in receipts from U.S. investments overseas--from $3.3 billion in 1960 to $11.2 billion in 1972. Payments covering the earnings of foreign investment in the United States also increased dramatically during the period. They were about $1.1 billion in 1960 and $5.9 billion in 1972. Our net earnings on investment income have thus risen from $2.2 billion in 1960 to $5.3 billion in 1972. The greater part of this improvement in the net investment earnings occurred in the early part of the 1960's. Since 1967, payments have grown nearly as rapidly as receipts and the net has improved by less than $1 billion. The reason is that our overall payments deficits are being financed by the buildup of liquid liabilities on which we must pay interest and these growing interest payments offset most of the increase in income from U.S. investments overseas.

CHART VI

NET INVESTMENT INCOME

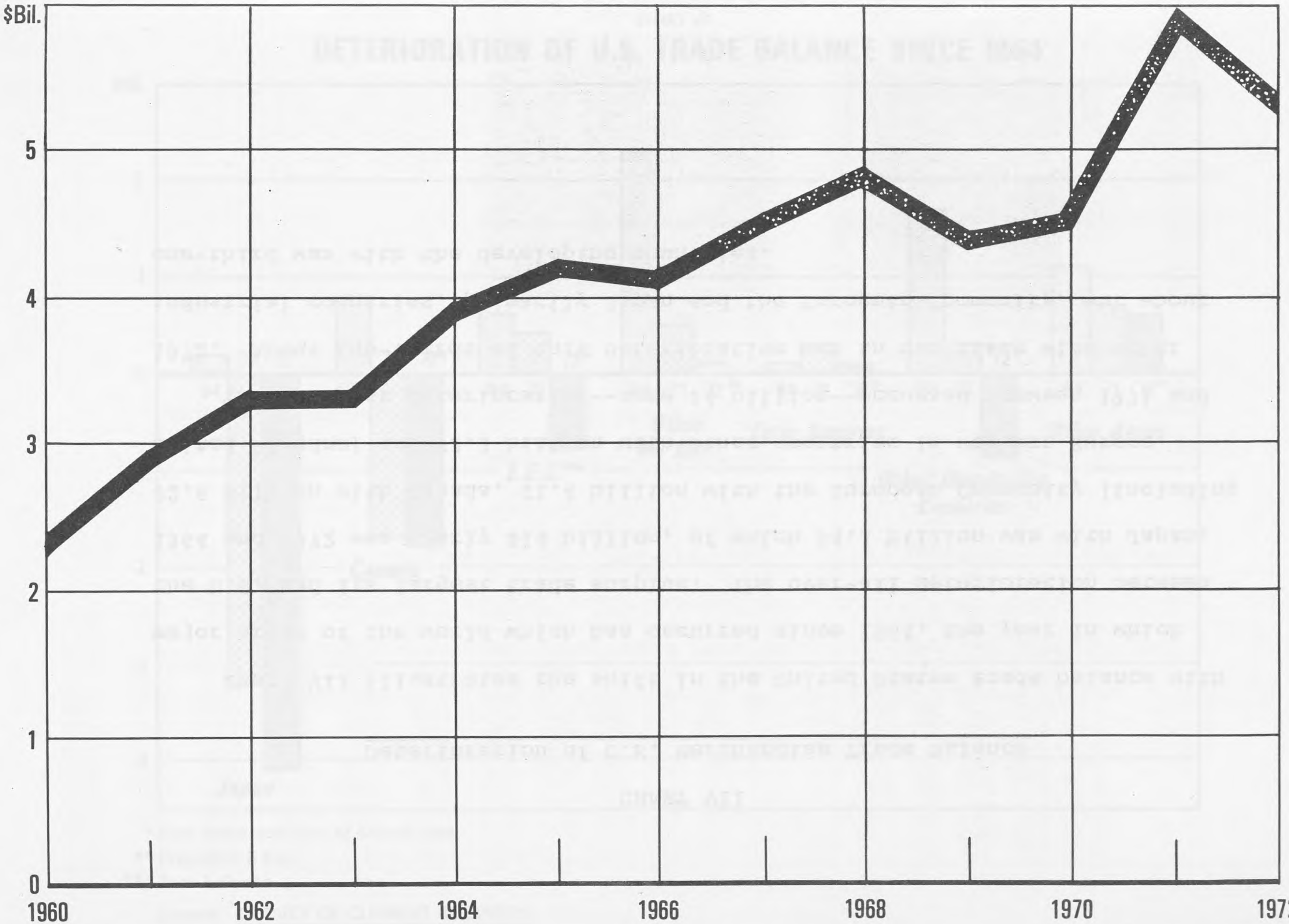

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CHART VII

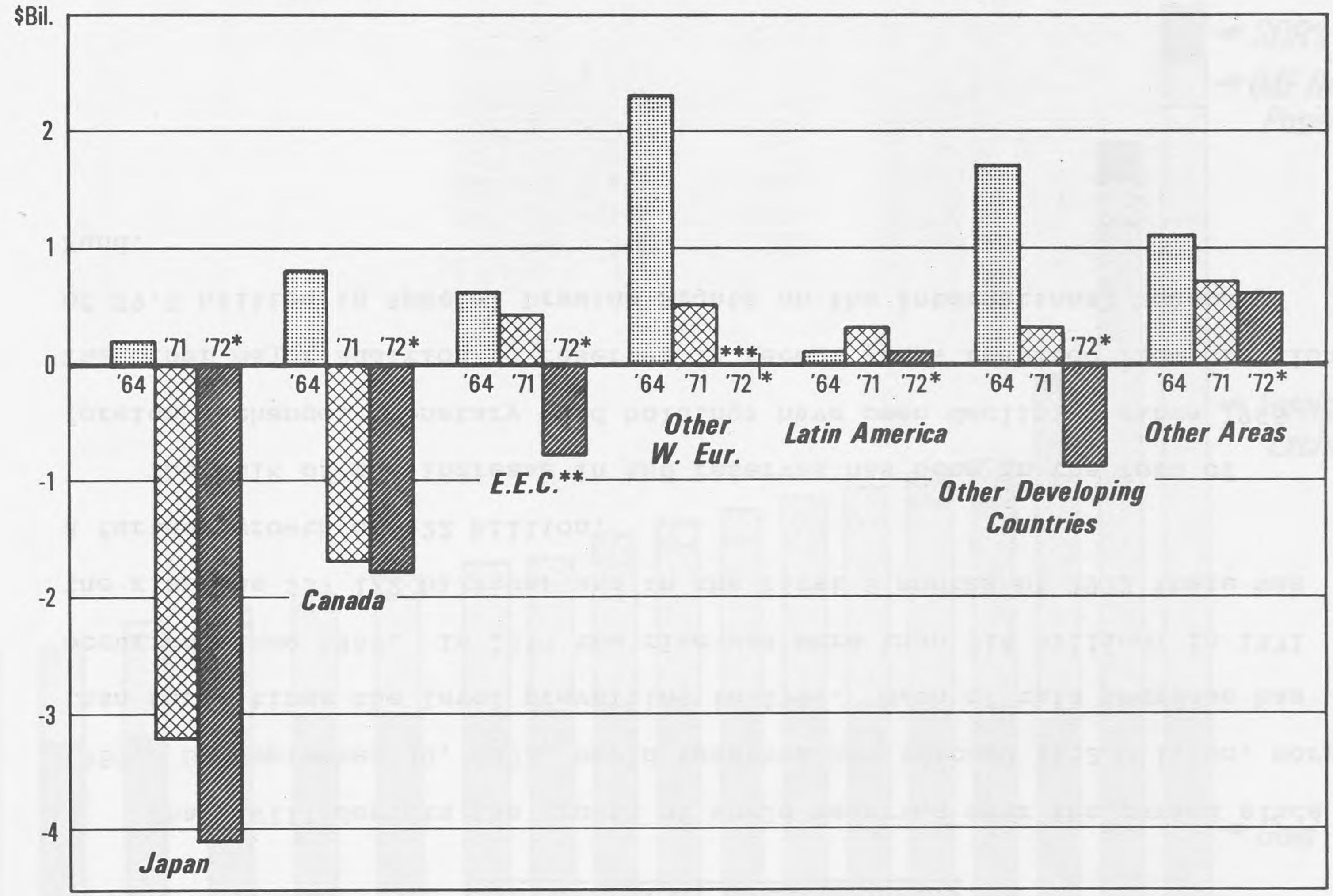
Deterioration of U.S. Merchandise Trade Balance

Chart VII illustrates the shift in the United States trade balance with major areas of the world which has occurred since 1964, the year in which the U.S. had its largest trade surplus. The over-all deterioration between 1964 and 1972 was nearly $14 billion, of which $4.3 billion was with Japan, $2.6 billion with Canada, $1.4 billion with the European Community (including United Kingdom) and $2.3 billion with other countries in western Europe.

The sharpest deterioration--some $4 billion--occurred between 1971 and 1972. About two-thirds of this deterioration was in our trade with other industrial countries, primarily Japan and the European Community, but about one-third was with the developing countries.

CHART VII

DETERIORATION OF U.S. TRADE BALANCE SINCE 1964



* First three quarters at annual rate

** Expanded E.E.C.

*** Zero balance

Source: SURVEY OF CURRENT BUSINESS

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CHART VIII

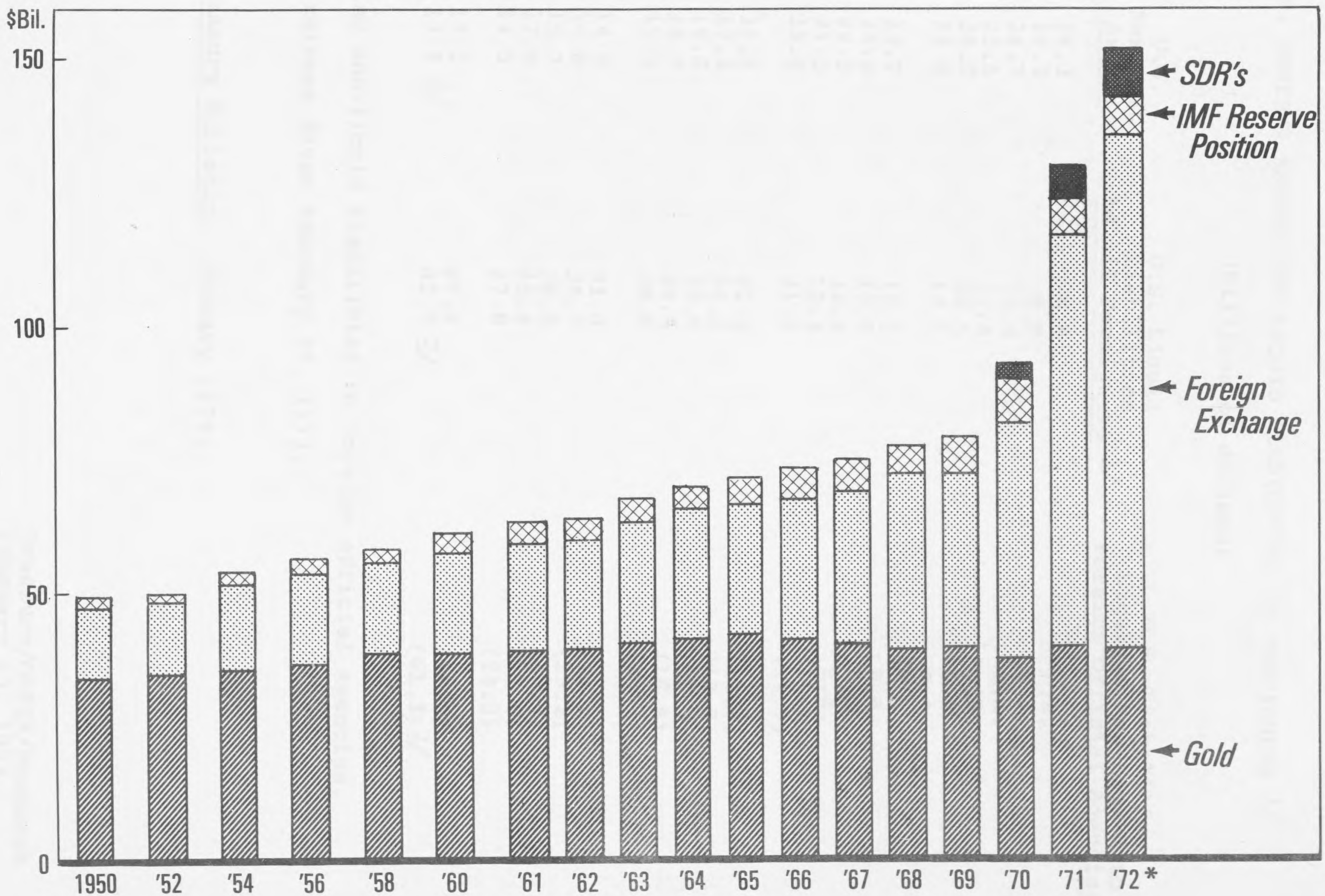
COMPOSITION OF WORLD RESERVES

Chart VIII depicts the growth of world reserves over the period since 1950. By September 30, 1972, world reserves had reached $152 billion, more than three times the level prevailing in 1950. Much of this increase has occurred since 1969. In 1970 the rise was more than $14 billion; in 1971 the rise was $37 1/2 billion; and in the first 9 months of 1972 there was a further growth of $22 billion.

The bulk of the increase in the reserves has been in the form of foreign exchange. Monetary gold holdings have been declining since 1965. The other major addition to reserves in recent years resulted from creation of $9.5 billion in Special Drawing Rights on the International Monetary Fund.

CHART VIII

COMPOSITION OF WORLD RESERVES, 1950-1972



* End September 30

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TABLE I

U.S. RESERVE ASSETS AND LIQUID LIABILITIES TO FOREIGNERS 1/

(billions of dollars)

	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	(13.7)
1963	16.8	26.4	(15.2)
1964	16.7	29.4	(16.6)
1965	15.5	29.6	(16.7)
1966	14.9	31.0	(15.9)
1967	14.8	35.7	(19.2)
1968	15.7	38.5	(18.4)
1969	17.0	45.9	(17.0)
1970	14.5	47.0	(24.3)
1971	12.2	67.8	(51.2)
1972	13.2 2/	82.7 2/	(61.3) 2/

1/ Including non-liquid liabilities to foreign official agencies.

2/ Normal release dates February 27, 1973.

SOURCE: Treasury Bulletin, January 1973.

Treasury/OASIA/Research
February 13, 1973

TABLE II

MEASURE OF THE U.S. BALANCE OF PAYMENTS
OFFICIAL RESERVE TRANSACTIONS BALANCE
(billions of dollars)

	Official Reserve Transactions Balance
1960	-3.4
1961	-1.3
1962	-2.7
1963	-1.9
1964	-1.5
1965	-1.3
1966	0.2
1967	-3.4
1968	1.6
1969	2.7
1970	-10.7 1/
1971	-29.5 1/
1972	-10.2 1/ 2/

1/ Includes SDR allocation of $867 million in 1970, $717 million in 1971 and, $710 million in 1972.

2/ Preliminary

SOURCE: Survey of Current Business, June and Dec. 1972

Treasury/OASIA/Research
February 13, 1973

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TABLE III

Composition of U.S. Balance of Payments

(billions of dollars)

	Balance on Goods, Services, and Remittances	Balance on Government Grants, Credits, and Private long-term Capital
1951	3.3	-3.6
1952	1.8	-3.4
1953	-.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	-.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	.7	-3.6
1970	2.2	-5.2
1971	-.8	-8.5
1972	-6.1 1/	-4.3 1/

1/ Estimate

Treasury/OASIA Research
February 13, 1973

TABLE III A

Balance on Current Account[1]
(billions of dollars)

1960	1.8
1961	3.1
1962	2.5
1963	3.2
1964	5.8
1965	4.3
1966	2.3
1967	2.1
1968	-.5
1969	-1.0
1970	.4
1971	-2.8
1972[1]	-8.3[2]

1/ Including Government Grants

2/ Preliminary

Treasury/OASIA Research
February 13, 1973

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TABLE IV

U.S. Balance of Payments on Current and Long-term Capital Account
(Billions of dollars)

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	-1.7
1967	-3.3
1968	-1.4
1969	-3.0
1970	-3.1
1971	-9.3
1972	-10.4 1/

1/ Estimate

Treasury/OASIA Research
February 13, 1973

TABLE V

U.S. MERCHANDISE TRADE
(billions of dollars)

	Trade Balance
1961	5.6
1962	4.6
1963	5.2
1964	6.8
1965	4.9
1966	3.8
1967	3.8
1968	0.6
1969	0.6
1970	2.2
1971 1st half 1/	-1.4
2nd half 1/	-3.9
1972 1st half 1/	-6.7
2nd half 2/	-7.0 1/

Source: Survey of Current Business; June and Dec. 1972

1/ Annual Rate

2/ Preliminary

Treasury/OASIA Research
February 13, 1973

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TABLE VI

INVESTMENT INCOME

(billions of dollars)

	Receipts	Payments	Balance
1960	3.3	-1.1	2.2
1961	3.9	-1.0	2.9
1962	4.4	-1.1	3.3
1963	4.6	-1.3	3.3
1964	5.4	-1.5	3.9
1965	5.9	-1.7	4.2
1966	6.3	-2.1	4.2
1967	6.9	-2.4	4.5
1968	7.7	-2.9	4.8
1969	8.9	-4.5	4.4
1970	9.5	-5.1	4.4
1971	10.7	-4.8	5.9
1972	11.2	-5.9	5.3

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TABLE VII

MERCHANDISE TRADE BALANCE BY AREA
(billions of dollars)

	1964	1971	1972*
Japan	.2	-3.2	-4.1
Canada	.8	-1.7	-1.8
EC**	.6	.4	-.8
Other Western Europe	2.3	.5	.0
Latin America	.1	.3	.1
Other Developing Countries	1.7	.3	-.9
Other Areas ***	1.1	.7	.6

* First three quarters, annual rates

** Expanded to include United Kingdom, Denmark and Ireland

*** Australia, New Zealand, South Africa and Eastern Europe

Treasury/OASIA/Research
February 13, 1973

TABLE VIII

Composition of World Reserves, 1950-1972

(millions of dollars)

End of Year	Gold (All Countries)	Foreign Exchange	Reserve Position in Fund	SDR's	Total Reserves
1950	33.8	13.3	1.7	--	48.7
1951	33.9	13.7	1.7	--	49.4
1952	33.9	14.2	1.8	--	49.9
1953	34.3	15.6	1.9	--	51.8
1954	35.0	16.7	1.8	--	53.5
1955	35.4	17.0	1.8	--	54.3
1956	36.0	17.8	2.3	--	56.2
1957	37.3	17.0	2.3	--	56.6
1958	38.0	17.1	2.6	--	57.7
1959	37.9	16.4	3.3	--	57.5
1960	38.0	19.0	3.6	--	60.6
1961	38.9	19.6	4.2	--	62.7
1962	39.3	20.0	3.8	--	63.1
1963	40.2	22.5	3.9	--	66.6
1964	40.8	24.0	4.2	--	69.0
1965	41.9	23.8	5.4	--	71.0
1966	40.9	25.4	6.3	--	72.6
1967	39.5	29.0	5.7	--	74.3
1968	38.9	31.9	6.5	--	71.3
1969	39.1	32.3	6.7	--	78.2
1970	37.2	44.5	7.7	3.1	92.5
1971	39.2	77.6	6.9	6.4	130.1
1972 (3rd quarter)	38.8	97.0	6.7	9.5	152.0

SOURCE: International Financial Statistics, January 1972, February 1973, Supplement to 1966-67

February 16, 1973
Treasury/OASIA/Research

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

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FOR RELEASE AT 10:00 A.M.

STATEMENT BY THE HONORABLE GEORGE P. SHULTZ
SECRETARY OF THE TREASURY
BEFORE THE
SENATE COMMITTEE ON APPROPRIATIONS
TUESDAY, FEBRUARY 20, 1973, 10:00 A.M.

Mr. Chairman and Members of this distinguished Committee, I am pleased to be with you this morning to discuss the Federal budget.

The tables attached to my statement provide a summary of the revenue projections in the budget, so I will mention only a few of the highlights. We are projecting a $16.3 billion gain in receipts for the current fiscal year to a total of $225 billion. For 1974 we anticipate a $31 billion gain in revenues. Most of this very large increase is due to the strength of the economy, but some $8 billion in added receipts stem from increased social security taxes that were legislated last year. Next year's receipts, then, are estimated at $256 billion.

The President has recommended an $18 billion increase in Federal expenditures for the current fiscal year to a total of $250 billion. This will produce a very substantial budget deficit of almost $25 billion, although the budget will again be roughly in balance on a full-employment basis.

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Our budget for fiscal 1974 calls for a $19 billion increase in Federal outlays to a total of about $269 billion. This increase in spending coupled with the more rapid rise in receipts will cut the deficit almost in half, to $12.7 billion. On a full-employment basis, outlays and receipts are in balance.

The President's budget requests for 1973 and 1974 will help the United States achieve many important objectives. The substantial increases in Federal outlays provide for an adequate military defense and for many of the other growing needs of the American people.

These budgets are also fully consistent with our basic economic objectives. Last year, employment increased by an extraordinary 2.3 million persons, total economic output advanced 6 1/2 percent, and the rate of inflation slowed to about 3 percent. This year we expect the economy to continue to move ahead. Real economic growth for calendar year 1973 will be approximately 6 3/4 percent. The unemployment rate will, we believe, drop to around 4 1/2 percent by the end of the year. At the same time, inflation will slacken further: we look for the increase in consumer prices to be down to 2 1/2 percent or less by the end of the year.

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Our improving economic performance, both last year and this year, is accounted for primarily by the vigor of the private sector, although the stimulus provided by our budget deficits has made a contribution to the expansion. It is important, however, to curtail this stimulus as the economy approaches its full potential output.

In this way the budget is on guard against inflation. By keeping both the 1973 and 1974 budgets close to balance on a full-employment basis, we maintain the conditions that are necessary to prevent a new outbreak of the kind of massive inflationary pressures that were created by the runaway budgets of 1966-68. This Committee was instrumental in developing the bipartisan Federal budget in fiscal 1969 that marked a return to sound fiscal policy. To avoid getting back into that same kind of situation, we again need close cooperation between the Congress and the Executive Branch.

Such cooperation is crucial to the integrity of fiscal policy. Only this way can we properly serve the needs of the American people. Only this way can we maintain a healthy economic environment in which business activity can grow, unemployment can be reduced and inflation can continue to slow.

If we fail in this endeavor, if Federal spending soars beyond full-employment revenues, it cannot help but lead to a resurgence of inflation or an increase in taxation, or both.

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Budget Receipts

Under Legislation Proposed in Fiscal 1974 Budget Document

(Billions of Dollars)

	1972 actual	1973 estimate	1974 estimate
Individual income taxes	94.7	99.4	111.6
Corporation income taxes	32.2	33.5	37.0
Social insurance taxes and contributions:			
Employment taxes and contributions	46.1	55.6	67.9
Unemployment insurance	4.4	5.3	6.3
Contributions for other insurance and retirement	3.4	3.7	4.0
Excise taxes	15.5	16.0	16.8
Estate and gift taxes	5.4	4.6	5.0
Customs duties	3.3	3.0	3.3
Miscellaneous receipts	3.6	4.0	4.1
Unified budget receipts	208.6	225.0	256.0
Deduct:			
Trust fund receipts	73.0	92.0	105.5
Intragovernmental transactions	-13.2	-21.2	-20.8
Federal funds receipts	148.8	154.2	171.3

Underlying Economic Assumptions

(Calendar years. In billions of dollars)

	1971 actual	1972 estimate	1973 estimate
Gross national product	1,050	1,152	1,267
Personal income	861	936	1,018
Corporate profits before tax	83	94	108

Projected Changes in Budget Receipts
Fiscal Years 1973 and 1974

	Fiscal 1973 from Fiscal 1972	Fiscal 1974 from Fiscal 1973
	(billions of dollars)	
Revenue changes traceable to:		
Economic growth	+ 22.0	+ 23.8
Tax Reform Act of 1969	- 2.7	- 1.6
Revenue Act of 1971	- 7.7	+ 1.6
Changes in depreciation regulations	- 0.2	- 0.6
Social security changes	+ 6.6	+ 8.1
Other changes	- 1.6	- 0.3
Total	+ 16.3	+ 31.0

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Embargoed For Release at 10:00 A.M.
Monday, February 19, 1973

MEMORANDUM TO CORRESPONDENTS:

Attached is a letter delivered today to the President of the Senate which transmits a proposed bill entitled, "Environmental Protection Tax Act of 1973." The bill is designed 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. A similar letter was delivered to the Speaker of the House. Also attached is a copy of the bill.

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Attachments

THE SECRETARY OF THE TREASURY
WASHINGTON

FEB 19 1973

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Dear Mr. President:

In accordance with the President's Message of February 15, 1973, with respect to environmental legislation, I am enclosing a draft bill entitled the "Environmental Protection Tax Act of 1973", 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,

George P. Shultz

George P. Shultz

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 1973".

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 15, 1973, 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, 1973.

Sec. 202. RECAPTURE ON DISPOSITION OF PROPERTY.

Section 1245 (relating to gain from disposition of certain depreciable property) is amended as follows:

(1) In section 1245(a) (2) strike out "or" at the end of subparagraph (C); 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."

(2) 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, 1973 (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

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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, 1973.

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.

"(a) 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.

"(b) 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, 1973.

(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, United States 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, 344.

"(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

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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:

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"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 AMENDMENTS.

(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 188)." and inserting in lieu thereof "188, or 189)."

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(d) EFFECTIVE DATE. The amendments made by this section shall apply with respect to additions to capital account made after February 15, 1973.

Sec. 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, 1974.

TITLE V. CHARITABLE TRANSFERS
FOR CONSERVATION PURPOSES

Sec. 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. Section 170 (f) (3) (relating to charitable contributions) is amended --

(1) by striking out "or" at the end of subparagraph (B) (i),

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(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 30 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."

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(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 section 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 section 170 (f) (3) (B))".

(d) EFFECTIVE DATE. The amendments made by this section shall apply with respect to contributions and transfers made after February 15, 1973.

ENVIRONMENTAL PROTECTION TAX ACT OF 1973

TITLE I SHORT TITLE, ETC.

Title I labels the Act as the "Environmental Protection Tax Act of 1973," 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, 1973.

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, 1973.

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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, 1973.

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, 1973.

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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 regulations and does not require an environmentally undesirable degree of draining, dredging, or filling.

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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 15, 1973.

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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.

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The provision is effective with respect to such expenditures incurred after June 30, 1974.

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 30 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 15, 1973.

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

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FOR IMMEDIATE RELEASE February 20, 1973

WITHHOLDING OF APPRAISEMENT OF
ALUMINUM INGOT FROM CANADA

Assistant Secretary of the Treasury Edward L. Morgan announced today the withholding of appraisement of aluminum ingot from Canada pending a determination as to whether it is being sold at less than fair value within the meaning of the Antidumping Act, 1921, as amended.

The decision will appear in the Federal Register of February 20, 1973.

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 six months from the date of publication of the "Withholding of Appraisement Notice" in the Federal Register.

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

During the period of January 1971 through August 1972 imports of aluminum ingot from Canada were valued at approximately $350 million.

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

3 8 2

FOR IMMEDIATE RELEASE February 20, 1973

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 1, 1973, in the amount of $4,201,685,000 as follows:

91-day bills (to maturity date) to be issued March 1, 1973, in the amount of $2,400,000,000, or thereabouts, representing an additional amount of bills dated May 31, 1972, and to mature May 31, 1973 (CUSIP No. 912793 PX8) originally issued in the amount of $1,200,180,000 (an additional $500,950,000 was issued on August 31, 1972, and an additional $1,902,735,000 was issued on November 30, 1972), the additional and original bills to be freely interchangeable.

182-day bills, for $1,800,000,000, or thereabouts, to be dated March 1, 1973, and to mature August 30, 1973 (CUSIP No. 912793 RS7).

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, February 26, 1973. 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 1, 1973, in cash or other immediately available funds or in a like face amount of Treasury bills maturing March 1, 1973. 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.

DEPARTMENT OF THE TREASURY

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PRESS BRIEFING

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Participants:

HONORABLE PAUL A. VOLCKER, UNDER SECRETARY OF THE TREASURY FOR MONETARY AFFAIRS

Accompanied by Jack Bennett, Deputy Under Secretary for Monetary Affairs; and Bill Weber, Public Information Officer; and

MEMBERS OF THE PRESS

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Room 4121
Department of the Treasury
Washington, D. C.
Tuesday, February 13, 1973
5:10 p.m.

MR. WEBER: Ladies and gentlemen, will you all pay attention for a second.

We have had a fair number of inquiries about the pure mechanics of Mr. Volcker's 31,000-plus mile journey. We would like to discuss that on the record. So we will ask that all questions pertaining to that subject be handled first, and then we will shift gears, and any material pertaining to the statement last night, the press conference that Secretary Shultz held last night, the substantive material will be strictly on background. (See page 6).

QUESTION: What are your terms for background, Administration officials?

MR. WEBER: Treasury officials is fine.

QUESTION: Paul, how did you get through Tokyo without being spotted?

MR. VOLCKER: You do it in the middle of the night. I left my hat someplace in Tokyo, and I don't know where. I had a hat with a nice sign on it saying, this is the property of Paul Volcker, but I don't know where it is in Tokyo. I feel a little bit like I should say, today is Wednesday, it must be Washington.

QUESTION: It is Tuesday.

MR. VOLCKER: Is it Tuesday? It is Wednesday in Japan. I have had to keep this straight.

Just on the bare facts of this, I went off to Tokyo Wednesday afternoon, which meant I got there Thursday, I guess, doesn't it? I have a little trouble going over the date line. I guess leaving here Wednesday afternoon puts you in Tokyo Thursday evening. And then I flew back over the pole to Bonn. And I was there half a day, or whatever. And I went down to Paris -- no, London, I am sorry --and spent the night there,

(more)

and on to Paris, and spent the night there -- no, I am sorry, I spent the night in London and on to Paris, and I went down to Rome and picked up Mr. Malagodi, the Italian Finance Minister and had a chance to talk to him on the way back to Paris, where he was meeting with his counterparts. And then I did spend the night in Paris, and then went to Bonn the next morning and spent the last night in Bonn. And then back to Washington.

QUESTION: How did you get spotted in Bonn?

MR. VOLCKER: I didn't know I was. I knew that there were -- I saw some reports to that effect. There were no reporters around when I went to see Mr. Schmidt, but we heard that there were some by the time the meeting was over. But I thought it was probably just because they knew Mr. Schmidt was in there, and waiting for him to come out and make some kind of a statement. Anyway I ~~XX~~ just went out the back door, I don't know whether anyone saw me there or not.

I should say, I went with Mr. Sam Cross, whom I am sure you know, just the two of us. We are both very inconspicuous people.

Bill is suggesting to me Sam's comment along about the middle of last night that this negotiation will soon come to an end, because I had run out of both shirts and cigars on the trip, which was true.

QUESTION: What plane did you travel in?

MR. VOLCKER: An Air Force plane.

QUESTION: Where did you stay in these places, in the U.S. Embassy?

MR. VOLCKER: I usually stayed with the Ambassador in the U.S. Embassy or some other American official.

QUESTION: Did you happen to see Mr. Eberle in Tokyo at all?

MR. VOLCKER: No, I did not.

QUESTION: Did he know you were there?

MR. VOLCKER: Yes, I did talk to him briefly on the telephone while I was there.

QUESTION: How often did you talk to Mr. Shultz?

MR. VOLCKER: Frequently, and with increasing frequency as the weekend passed. I was in pretty constant contact with him.

QUESTION: Was this from the airplane while you were flying?

MR. VOLCKER: Occasionally, but usually when I was at a place and I could report to him how things were progressing.

QUESTION: Did the President ever personally direct your negotiating?

MR. VOLCKER: Not with me directly. Mr. Shultz was in contact with him.

QUESTION: Did you see the President before you left?

MR. VOLCKER: No.

QUESTION: Did you talk to him while you were on your trip?

MR. VOLCKER: The President?

QUESTION: Did you talk to the President?

MR. VOLCKER: No.

QUESTION: I think maybe we should clarify a point about Tokyo. Were you there in fact at night, late at night?

MR. VOLCKER: By the time I left it was late at night, yes.

Actually, I got a little stuck in Tokyo, because the crew had to have a little rest, unexpectedly I got delayed on this, and it put us back several hours, and I didn't get out of Tokyo as quickly as I thought I was going to. But I was there in late evening, and then had to stay a few hours until we could get the plane geared up to get out of there.

QUESTION: Was it the same crew throughout the trip?

MR. VOLCKER: We shifted crews after Tokyo in Anchorage.

QUESTION: How long were you in Tokyo?

MR. VOLCKER: Just a few hours.

QUESTION: Who did you see there?

MR. VOLCKER: Mr. Aichi and one or two of his associates. Mr. Hosomi, whom I later saw in Bonn, was also there.

QUESTION: Mr. Volcker, Mr. Shultz said last night that the decision was taken Tuesday of last week when the U.S. approach was decided on. You didn't leave until Wednesday.

Given the urgency of the situation, is there anything to say this ~~XXXXXXX~~ afternoon about the hiatus between Tuesday and Wednesday?

MR. VOLCKER: I had to testify Wednesday morning. And the timing looked about right in terms of the calendar and in terms of winding the thing up sometime during the weekend.

QUESTION: Can we get to the substance now?

MR. WEBER: Let's shift gears now. <u>We will be on background from here on out.</u>

QUESTION: Mr. Volcker, ~~XXXXXXXX~~ the French wire service said today that Mr. Schmidt's holding the line on the Deutsche mark was really pressuring the Americans toward dollar devaluation. Was that the right interpretation?

MR. VOLCKER: I don't think that is the right interpretation. I think we had a problem here essentially reaching a solution to several different and converging problems simultaneously. We had an exchange market problem, of course. But underneath that, we had our balance of payments problem, and the other disequilibria in payments, particularly with the Japanese. We had the problem of an approach toward our trade legislation. We had a problem of reaching a solution to the disequilibria, and providing the basis for an improvement in our trade and balance of payments position that provides a more favorable environment for considering the trade legislation. We have the problem of the needs of all the partners in effect in the world trading community, or the major ones, and how they could best mesh together to meet varying requirements. And there were obviously several possible ways to proceed, but I think the way that was decided upon was by common consensus a way that best met these varying needs, a realization that there was a disequilibrium, that we should make a step, and a very important and forceful step, toward dealing with these disequilibria that plague us. And we have done it, I think, in a way that meets the broader need to meet the political and economic objectives of the various members of the world community.

QUESTION: Was the across-the-board devaluation of the dollar your preferred strategy?

MR. VOLCKER: I think it was certainly the preferred strategy in the sense of the blending of all these considerations, including the consideration of finding a solution that fitted in best with other people's needs. This was not like a Smithsonian type situation, or the pre-Smithsonian type situation, when it seemed clear that a number of exchange rates were out of line by varying degrees. Here we have a case where there is a big disequilibrium in Japan, and we in the U.S. have had a more generalized balance of payments problem, but it is much harder to make a case, that the European rates are out of line with each other. So all those things had to be taken into account.

QUESTION: Then do I understand you correctly to say that with Japan being the main problem, European rates vis-a-vis ourselves, ~~xxxxxx~~ vis-a-vis the dollar, were not particularly out of line?

MR. VOLCKER: I think the assessment is that we had a generalized problem of some degree of magnitude, but that a particularly large portion of that problem is with Japan. So the remedy is designed to fit.

QUESTION: What would your alternatives have been to an across-the-board devaluation?

MR. VOLCKER: Well, I don't think the U.S., looking at it alone, was necessarily in a position where we were forced in any sense to do anything.

QUESTION: Exactly. That is why I want to know what the alternatives were.

MR. VOLCKER: That could have led to perhaps some more generalized floating. The Europeans apparently gave some consideration to a partial joint float at least. But this again seemed to be the solution that fitted everybody's needs most effectively, in giving us the kind of adjustment we wanted, and meeting some of the other requirements and desires of some of the other trading partners.

QUESTION: What are some of those other desires and requirements?

MR. VOLCKER: Well, for the group of European countries that want to maintain the fixed par value it met that desire. It didn't disturb the exchange rate relationships among that group of countries. It met the Japanese desire. If they were going to be willing to make an adjustment, in effect they wanted to do it by this method rather than by a straight forward revaluation. So this pattern puts together all of those.

QUESTION: That is, they were able to gain part of the revaluation via a currency change on our part.

MR. VOLCKER: I don't know that that ~~xxxxxxx~~ is terribly importan to the Japanese. But they did not want to make a decision to revalue explicitly.

QUESTION: By themselves?

MR. VOLCKER: By themselves or otherwise.

QUESTION: Why couldn't they have just floated?

MR. VOLCKER: They did.

QUESTION: The point is, they don't have to float as much now, right now.

MR. VOLCKER: They have to float by as much vis-a-vis the dollar. It depends on what you look at./ In the circumstances, Japan wanted to float. I don't know what else I can say.

QUESTION: The question is, why could the Japanese not have just floated by themselves?

MR. VOLCKER: Conceivably they could have. But we have also achieved a more general adjustment. If /only Japan had floated, you would have gotten an adjustment just for Japan.

QUESTION: Was Japan unwilling to float because of its concern ~~for~~ with its currency relationship with Western Europe?

MR. VOLCKER: Japan is willing to float. Japan is floating.

QUESTION: I mean to float alone without any U.S. devaluation.

MR. VOLCKER: I don't know whether they would -- the question of a U.S. devaluation I am not sure is critical to Japan. You are making an assumption here somehow.

QUESTION: That is what we want to find out.

MR. VOLCKER: I think there is a feeling in Japan that they don't like to move just in isolation. But that is a different thing than saying that the dollar had to be devalued, that they like to be in a more multilateral setting. I don't know if they have any great conviction about the nature of the precise multilateral moves. But they would like to be a little more multilateral than unilateral.

QUESTION: Why did you go to Japan first, Paul?

MR. VOLCKER: Because that seemed the biggest problem. And I think we had to get some feeling of what the Japanese attitude was to unlock the key.

QUESTION: Mr. Volcker, about a year ago you forecast that there would be an improvement soon in the American trade accounts. And you stated what happened -- it started getting worse, and didn't get very much better. Would you care to comment on this?

MR. VOLCKER: It began getting a little better, but the last two months were disappointing figures. And I remain of the opinion in the last two months were the odd figures. But when we evaluated the position in its totality, taking account of everything that had gone on, it seemed to confirm the judgment that another move of this nature and magnitude was desirable in the interest of world equilibrium.

QUESTION: The impact of this devaluation initially will be perverse?

MR. VOLCKER: That is right.

QUESTION: As the first one was.

MR. VOLCKER: That is right.

QUESTION: When did you expect realistically to see an improvement?

MR. VOLCKER: There is no way around this problem. We will get perverse reactions from this exchange rate change. And I can't wave a magic wand and bring instantaneous equilibrium. But that will come about in time. I think this is a fair estimate of a move that will in time, not just in the American payments, but also in the Japanese payments, and in other countries' payments, give us the thrust to restore equilibrium. And that is going to take time. I suppose we will go through another period when everybody is sitting around waiting for the improvement to appear. I beg of you not to get too alarmed when you don't see the improvement appearing instantaneously. You must expect perverse reactions and all the rest. You just have to expect that, it is going to happen, there is no question about it. We think these newly set exchange rate relationships are reasonable from anyone's viewpoint, taking into account, of course, too, the fact that we have been doing better on inflation than Western Europe in particular. The feeling is that any disequilibrium with Western Europe is not nearly so extreme as with Japan. Japan is the core of the problem. They have had one sizable re-evaluation, and the exchange rate vis-a-vis the dollar is going to move again by presumption over a substantial range. It is going to take awhile to effect this situation, but the magnitude is sizable.

QUESTION: Do you have assurances that the Japanese float will be absolutely clean?

MR. VOLCKER: Well, I don't know what "absolutely clean" means in this context. I certainly would not want to suggest that they were going to engage in a dirty float by any means. We, as a result of our discussions with them, have a firm conviction, which was expressed in Secretary Shultz' statement last night. I think that represents our conclusion.

QUESTION: Do you have any kind of a numerical sense of what that would be to satisfy the balance of payments needs?

MR. VOLCKER: I think it is fair to say, as I think Secretary Shultz probably said last night, that we presume that it will require a larger adjustment vis-a-vis the dollar in the case of the yen ~~and~~ than the adjustment applied by these actions against European countries.

QUESTION: We know that. That wasn't the question. I don't know whether you can answer it.

MR. VOLCKER: I don't think there will be any more, or there can be any more.

QUESTION: Didn't Mr. Shultz suggest last night that it might be double the 10?

MR. VOLCKER: I don't believe he did.

QUESTION: Two questions. When would you expect to see a more favorable trend in the balance of trade appear; and secondly, what kind of trade legislation do you have in mind now?

MR. VOLCKER: It was pointed out on the first question that I have been expecting a more favorable trend to develop for a few months anyway. Indeed, I think there were some glimmerings of a more favorable trend developing. Then we had two bad months in a row. Now, whether the two bad months are more indicative than the other earlier months where the trend was gently turning around I suppose remains to be seen. But I think it is fair to say that apart from this action, we expected improvement in our trade balance next year, and would ~~xxx~~ still expect an improvement in our trade balance next year. But now we have this perversity to interfere with that trend a bit in the short run. But if you can look beyond that initial reaction again, obviously, we expect that this kind of action will powerfully reinforce an improving trend which we were pretty confident would be improving, but not at a sufficient rate of speed. So we are giving it needed additional thrust.

QUESTION: The answer to the question is, next year?

MR. VOLCKER: Well, I guess I am on record as saying I expect the trade balance to improve next year.

MR. BENNETT: You mean '74?

MR. VOLCKER: Next year? I'm sorry, I keep forgetting we're in the early part of a new year. By '74 I certainly would expect a significantly improving trade balance.

significantly improving trade balance.

QUESTION: But evidently you meant 1973.

MR. VOLCKER: Yes, I would think even in 1973. The only problem is, we may have some perverse actions during the first half of this year as we did during the first half of last year.

QUESTION: The second part of my question about trade legislation.

MR. VOLCKER: Well, the nature of the trade legislation, as you know, is just very broadly outlined in Mr. Shultz' statement. I can't go a lot beyond that, because there is a desire here to have some rather intensive consultations with business, labor, congressional leaders, before the legislation is formed in full detail. But the intention as indicated here is to have these four, I think, components that are cited. It would provide authority for multilateral negotiations in the trade area where we would look toward lowering both tariff and non-tariff barriers. And we would provide ourselves with more adequate procedures and devices for dealing with unfair practices of others, practices that distort a competitive relationship. The bill ~~that~~ would also provide an ability to negotiate a safeguard apparatus, as has been discussed rather widely. And there would be some provisions, as we have touched upon in our monetary reform proposals, for providing a kind of emergency power for protecting one's external position from persistant balance of payments problems.

QUESTION: When you set out, is it fair to say that you were attempting to derive some kind of solution -- as my mind goes back to the British devaluation of '67, where the purpose was to gain a devaluation, but be assured that other countries would not follow us down if we were to make a general devaluation -- or did you in fact have other alternatives in mind?

MR. VOLCKER: It could have culminated in more than one direction. If it culminated in the direction which it did take, the kind of assurance that you suggest was certainly one component of that kind of solution.

QUESTION: But what are the other directions?

MR. VOLCKER: Well, we touched upon those earlier. Basically, if we found an unforthcoming attitude every place else, we could have stood pat in effect.

QUESTION: And how would we have stood pat?

MR. VOLCKER: Well, we have an exchange problem, but there is no initiative that we are going to take for our part. That would have been a solution, in quotation marks, anyway, if no more desirable solutions could be negotiated. I think we negotiated a more desirable solution.

QUESTION: Is there any resistance to devaluation of the dollar?

MR. VOLCKER: I don't think there is any resistance to devaluation per se. I think this kind of solution met with general assent. I think that it is fair to say, in varying degrees and different places, that basically there was a convergence of opinion that this kind of action, with the U.S. taking the chief initiative, with conditions that others would stand still, and so forth, and that the Japanese would float, was the desirable overall solution in the circumstances. I think that view was quite common. And I think there was a high degree of willingness to cooperate on all sides to make this solution possible.

QUESTION: We are trying to find out what the alternatives were that were mooted in fact if there were any others seriously so. You were face to face with these people.

MR. VOLCKER: I don't know all the discussions that may have gone on among European countries. But I did mention that the idea at least of some of those countries floating together was certainly a theoretical -- would have been a theoretical alternative, which I think they thought certainly less satisfactory.

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QUESTION: Did you suggest a joint float at any time in your talks?

MR. VOLCKER: No, I don't think we suggested it in any sense as a U.S. proposal.

QUESTION: Did anyone come back to you on the question of import surcharges which had been floated while you were in fact away? Did in effect the Europeans or the others approach you, or the Japanese in particular, on the question of the States taking unilateral action on import surcharges, which was widely floated while you were floating around the world?

MR. VOLCKER: No, nobody approached me on that.

QUESTION: That question was not raised in discussions?

MR. VOLCKER: I think that we had all these discussions against a background that there was a common desire to reach a solution that would deal with the underlying imbalances that inevitably create the tensions, economic or political, monetary or economic, and pressures for that kind of action. And I think by common assent we wanted to manage the situation rather than have it manage us in that sense.

QUESTION: Mr. Volcker, the question of whether we suggested a joint float, I think Giscard was quoted today as saying that you had said either a devaluation of the dollar or a joint European float would be acceptable to the U.S.

MR. VOLCKER: That doesn't say I suggested it.

QUESTION: Is that accurate?

MR. VOLCKER: I think there was more than one solution that could have been reached.

QUESTION: Is Giscard's version of your conversation accurate?

MR. VOLCKER: I don't think I could go beyond saying that there was more than one solution, and more than one solution that would have been acceptable to us.

QUESTION: Mr. Volcker, Mr. Shultz has committed the U.S. to phase out capital controls by the end of next year, December 1974. Does that imply that you would have a sufficient surplus on your invisible and merchandise trade accounts to finance the outflow of American capital that would take place under that action offset by foreign investment in this country?

MR. VOLCKER: It contemplates that by that time our balance of payments position will be vigorously moving toward equilibrium. We have said repeatedly that when we look at the monetary system in the longer run we contemplate arrangements that will permit countries to operate without this kind of restriction. In a way this is reiterating our conviction that this is the kind of monetary system we are looking forward to, and the actions that we have taken here consistent with that notion are aimed at pushing us to that kind of equilibrium. This expresses our confidence that it will indeed push us toward that kind of equilibrium.

QUESTION: For what reason do we, I mean specifically the U.S., in our own interest need monetary reform for at all now? We have obviously shown that we can handle the adjustment process. The President is also talking about what he calls a safeguard system as a backup. What is in it for the U.S. to continue?

MR. VOLCKER: What is in it for the U.S., I think, is in a sense what is in it for other countries and for the world. I think basically when you come down to the rock bottom guts of the matter, what you are talking about in monetary reform is developing some agreed code of conduct, so that people know how they are supposed to act, and know how other people will react in given situations, in the interest of having a kind of agreed framework in which both trade and money can proceed without restrictions, or with a minimum of restrictions. That is what monetary reform is all about in its essence. Stated so generally -- and I do think this is the guts of the matter -- it doesn't itself imply any particular kind of mechanical arrangements. More than one set of mechanical arrangements can meet this need. But I don't think you can escape a need, if you are going to avoid recurrent tensions, and economic and political crises, of having some kind of agreed code of conduct. That is as important to the U.S. if it wants to live harmoniously in a world and facilitate the flow of trade to others. If you say it is directly important to the U.S. economy in terms of our prosperity at home, in some sense reform may be less directly relevant to us than to some others, but it is very directly relevant to us as a leading member of the world community.

QUESTION: I would like to come back to the question I was raising earlier. When you set out on this mission, was it with the intention of bringing back an across-the-board devaluation of the dollar; was that your preferred solution?

MR. VOLCKER: We certainly thought that that was one solution. And I suppose it is fair to say that we thought that this -- I went with the feeling that among the other solutions, other possible solutions, this is one where we could meet our mutual desires perhaps most easily. I think that is a fair way to put it. And that turned out to be the case. It gave us adjustment, or gives us adjustment that we need, and it meets some of the other needs of this situation as well.

QUESTION: Wouldn't a simultaneous float of the European and Japanese currencies have been preferable from the U.S. point of view?

MR. VOLCKER: I think preferable is hard to say. So much would have depended upon the conditions and circumstances under which such floats were conducted. And I would have to know a lot more about those terms and conditions before I could begin to make that judgment. Certainly this way it gives us the maximum adjustment thrust.

QUESTION: What disadvantages do you see to the U.S.

in this devaluation?

MR. VOLCKER: Well, I think it is always a hard and difficult political decision for the President to make this kind of a move. There are certain political risks, risks of image, and risks of psychology that are inevitably involved. But basically I think this is a solution that the United States achieves the U.S. principal objectives. So however difficult the decision is, it is a good decision from the standpoint of the United States.

QUESTION: The principal objectives of what, of reversing our trade deficit?

MR. VOLCKER: Yes, that immediate kind of consideration dealing with this persistent equilibrium, but not just dealing with it, but dealing with it in a way that supports, I think, the possibilities for an open trading relationship and open monetary system, which is one of our basic longer range objectives.

QUESTION: But you see no economic disadvantage?

MR. VOLCKER: An exchange rate adjustment of this sort certainly has some inflationary consequences. I would not emphasize that, because we are in this sense in a fortunate position, that while trade is important to us, as a percentage of our GNP it is still relatively small. So while the repercussion of this action is to send up the prices of some imported goods, imported goods are a relatively small fraction of our GNP, and therefore, I don't think the immediate inflationary repercussions should be dramatized, because they are not that large in the overall context of things. But it is a negative, there is no question about it.

QUESTION: Apart from the devaluation itself, is there any way to describe what kind of impact would be needed from the trade talks in September to make much dent in our overall trade balance? Is that a very important part, or is that more or less long range in the devaluation?

MR. VOLCKER: Well, a lot of the results of these trade talks are going to be longer range as indeed, the results of the devaluation are going to take time to materialize. And it is still very important that we be able to export. And it is not unrelated to the exchange rate move itself. The change in relative prices doesn't do you any good if you are shut out of markets. And there are important commodities or important areas of the world where import barriers and practices make it difficult or impossible to capitalize fully on an exchange rate change. So it is very important that these kinds of monetary moves be supplemented and reinforced over time by the kind of trade liberalization that in fact makes price competitiveness effective. And that is not true in some important --

QUESTION: I wonder if you would describe the trend of the week's activities. Did each of the stops sort of build on the one prior leading to a logical conclusion, or were you sort of blowing in the wind, playing catch as catch can?

MR. VOLCKER: No, I think by and large -- you know, there are ups and downs in those things, but by and large the trend was fairly persistent. But there are some ups and downs. This kind of thing involves difficult decisions for everybody. I have referred to the difficult decision that it involved for us and for the President. It certainly involved a difficult decision for the Japanese. And it involved difficult decisions for some of the European countries as to whether they were in fact willing to stand still. There is no way to do any of this without some willingness to make difficult decisions. And I think the characteristic of the weekend was that in the end people were together willing to make difficult decisions to deal with a package that I think they all thought was the best way to approach this.

QUESTION: Was there a moment in which it looked like the whole thing was coming unglued?

MR. VOLCKER: I don't think so, no. You never know until the end whether it is all going to be put together. It didn't have sharp ups and downs. But you never know until the end.

QUESTION: How did your trip affect the timetable for the C-20 and the Nairobi meeting, the trip and the results of the trip?

MR. VOLCKER: I think this whole kind of experience lends point and emphasis to those kinds of discussions. I don't know whether it affects the timetable in any concrete and identifiable way. But I certainly think it is a mental spur to coming to grips with the problems before us. I think the kind of experience we have had recently, which perhaps broadened horizons in some respect, will cause some re-thinking in other respects. ~~xxd~~ I think ~~xx~~ this is basically a healthy process. There is nothing like a little crisis to focus the mind and cause a little re-thinking. Of course, one of the conclusions I suppose it is easy to draw from this, ~~xxxx~~ that I immediately draw from it, and that I would think ~~xxxx~~ perhaps others would draw from it, is that we have got to get on with designing a monetary system that doesn't require these kinds of trips.

QUESTION: Mr. Volcker, your remarks have focused in on Europe and Japan, like those of the President today and the Secretary last night. Whatever happened to Canada? A year or a year and a half ago they were three folk high, Europe, Japan and Canada. And yet Canada isn't mentioned anymore. What has changed?

MR. VOLCKER: Well, maybe the trouble is, nothing. We have certain problems with Canada, as you know, that have not been resolved. But in this particular situation Canada, with a floating currency, was a little bit removed from the center of the concern.

QUESTION: But the President's and the Secretary's references to trade also focus in on Europe and Japan and ignored Canada as well.

MR. VOLCKER: I don't think we mean to ignore Canada. I don't know just what particular references they made. But I don't want to leave any impression that I would want to exclude Canada from those discussions, because obviously, there are important problems there.

QUESTION: Are the U.S. problems with Canada being put on the shelf because of the minority government situation or because of the decreasing --

MR. VOLCKER: No, we don't consider any of our problems as "on the shelf," I think they all ought to be ~~xxxx~~ dealt with.

QUESTION: Mr. Volcker, what does this kind of a settlement do to the long range goal for a symmetrical system? It seems that we had another instance of asymmetry in which the deficit country has had to bear the so-called burden of adjustment. Doesn't this sort of torpedo your own proposal, long range proposal?

MR. VOLCKER: I don't think so. There is a certain deep-seated suspicion among many people, there has been, that the United States may talk symmetry, but this is all some kind of a facade, it is not really meaningful, and all they want is dollar imperialism or something. I would think -- and this was a factor in our own thinking -- that this kind of action disproves this thesis, that under the proper conditions we can operate a symmetrical system. Now, here we have a generalized balance of payments problem. Japan has a balance of payments problem, you have some movement in opposite directions in this solution, and the United States took a part of the initiative, took a large part of the initiative. It was appropriate in these particular set of circumstances. In another set of circumstances it would not be appropriate. And I see nothing inconsistent in what we have done in terms of advocacy of a symmetrical system. I don't think we have solved all the problems by any means. The position of the dollar in the system is not just like any other currency, obviously, the position of the United States is not just like any other country. We have had a devaluation here that required a certain amount of special negotiation that reflects that special character of the U.S. and the special character of the dollar. But I think basically -- and of course, we have to see how it works out over the longer run -- the effect of our change can be eroded. That would be unfortunate. That would be a sign that the system was working in that unsymmetrical way that you referred to.

MR. WEBER: Gentlemen, last question.

QUESTION: Mr. Volcker, you have said, as I understood it, that despite the last quarter's bad deficit figures, the change in the trend, that you foresaw that the last devaluation would bring you around to the goal of changing the deficit picture.

MR. VOLCKER: Bringing us an improvement.

QUESTION: Improvement this year.

So that that would mean that the crisis which took place last week was an artificial one, at least in your point of view?

MR. VOLCKER: I don't think entirely artificial.

QUESTION: And would that mean, if I may finish the question, that you then in fact yielded again to the speculators?

MR. VOLCKER: No. I would judge the situation, I think, somewhat differently. Most crises in one sense are artificial. This one was set ~~xx~~ off by some entirely unrelated events. But one of the reasons that it ~~xxxxxxxxxx~~ materialized in the way it ~~xxxx~~ did is, I think, the persistent underlying concern about our balance of payments, and the fact of a very large deficit. While I feel confident that the trend would have been improving this year in any event, an improving trend from a deep trough depends partly on how fast the trend is improving, how vigorously it improves, and where the end of the improvement will bring us. I think that is where a legitimate question could arise. This action, I think, reflects the common consensus that we need a little more impetus to the improving trend to bring us where we want to go, not that there would not have been an improving trend anyway. But we are pretty far beneath the zero line. So it takes a more vigorous push in our judgment -- and we have now applied that more vigorous push -- to make that trend accelerate over time -- accelerate maybe isn't the right word, as I mentioned earlier all these delays in the process -- but to make the adjustment bigger and more effective over the period of time that is inevitably necessary.

QUESTION: Do we still have a balance of payments adjustment goal in terms of dollars? I am talking about our famous 13 billion of a year ago. Is there still a specific numerical goal?

MR. VOLCKER: The 13 billion was an estimate of what we thought all measures taken together would need to produce against the trend that otherwise existed. I think everything that has happened since then, if I may say so, confirms the validity of that analysis.

QUESTION: Have you done any calculations in what the trade weighted average is of the Smithsonian devaluation plus the bulk of the devaluation?

MR. VOLCKER: I can't give you a figure for that; we haven't computed one and maybe never will, because we now have a situation in which a good many more currencies are floating, which makes it a little difficult to make that calculation. But obviously, adding this to the Smithsonian, by any standard we have achieved a very significant exchange rate adjustment.

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We thought that was appropriate, so we now feel that we are in a position that, looking ahead, and allowing sufficient time for this process, remembering all the nice things about domestic policy, which are crucially important, this can produce the kind of equilibrium that we seek.

QUESTION: Thank you, Mr. Volcker.

(Whereupon, at 5:45 p.m., the press briefing was concluded.)

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

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FOR IMMEDIATE RELEASE February 21, 1973

LESLIE S. SHAPIRO
NAMED DIRECTOR OF PRACTICE

Appointment of Leslie S. Shapiro as Director of Practice was announced today by General Counsel of the Treasury Samuel R. Pierce, Jr. Mr. Shapiro succeeds William H. Sager who was recently appointed General Counsel in Treasury's Office of Revenue Sharing.

Among other duties, the Director of Practice administers regulations regarding practice before the Internal Revenue Service and provides for the conduct of disciplinary proceedings relating to attorneys, certified public accountants and enrolled agents who practice before the Internal Revenue Service.

Prior to his appointment as Director, Mr. Shapiro had served as an attorney in the Office of Director of Practice since 1964.

A native of Duluth, Minnesota, Mr. Shapiro was graduated from the University of Minnesota in 1957. He received a J.D. from the University of Minnesota School of Law in 1959.

Mr. Shapiro is married to the former Sandra Heims of Minneapolis, Minn. Both Mr. and Mrs. Shapiro are members of the Minnesota Bar. They have two sons and live at 400 Eisner Street, Silver Spring, Md.

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

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FOR IMMEDIATE RELEASE February 21, 1973

TREASURY MOVES TO ASSURE RETURNING POW's
THEY WILL FACE NO TAX HARDSHIPS

Washington, D.C. -- Treasury Secretary George P. Shultz today announced that extensive preparations have been made to assure prompt, sympathetic, and trouble-free resolution of Federal income tax matters involving returning prisoners of war, survivors and members of the families of deceased servicemen, and families of those still listed as missing in action.

The Internal Revenue Service has instructed all of its district offices to provide immediate courteous, responsive, and personal attention to each POW-related income tax query it receives.

To make certain of this, IRS has selected employees qualified in these tax matters to serve as the personal contacts in district offices in all 50 States. These hand-picked experts have received additional special instruction and are ready to answer questions, assist in preparing tax returns when necessary, and generally to assure speedy and satisfactory resolution of these tax situations. A list of the names and locations of the IRS employees is attached.

To further guard against any inconvenience or hardship for the military personnel or their families, the IRS Service Center at Austin, Texas, has been designated the processing center to expedite handling of tax returns and claims of POW's service families, and survivors. In addition, IRS is preparing a booklet dealing with POW-related tax information which will be available to the public shortly. Another booklet dealing with special tax problems of families of those missing in action and the survivors of those killed in action will be issued at a later date.

OVER

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One specific question that has already been raised concerns the military pay which has accumulated while these men were in captivity. Under provisions of a law passed in 1972 (PL 92-279), returning POW's will not have to pay Federal income tax on that military pay.

There are, however, other problems in more complicated serviceman-family relationships which are not specifically covered by existing law. To assure humane and equitable tax treatment in those more complex tax situations, Secretary Shultz announced that proposed legislation has been submitted to Congress today.

Treasury and IRS officials have advised Department of Defense authorities of the details of the plans and proposed legislation, and the Agencies will cooperate closely in assisting the servicemen, members of their families and survivors.

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

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FOR IMMEDIATE RELEASE Feb. 21, 1973

MEMORANDUM FOR THE PRESS:

Secretary of the Treasury George P. Shultz today sent to Congress legislation to deal with income tax problems faced by some returning prisoners of war, and by the families of some men who have been listed as missing in action.

A copy of the letter of transmittal is attached, as well as a copy of the legislation and the Analysis of the bill.

In addition, a news release on other efforts to solve income tax problems of prisoners and their familes is attached.

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THE SECRETARY OF THE TREASURY
WASHINGTON

FEB 21 1973

Dear Mr. Speaker:

I am enclosing a draft bill to amend certain sections of the Internal Revenue Code of 1954 for the relief of certain members of the Armed Forces of the United States returning from the Vietnam conflict combat zone. Also enclosed is a section-by-section analysis of the proposed legislation.

In general, this legislation would resolve several problems that have arisen for servicemen, their families, and the families of deceased servicemen. The proposed legislation would change the law in order to permit hospitalized servicemen to continue to treat their military pay in the same manner as combat pay up to the month hospitalization ceases even if all combat activities have terminated. Also the proposal would extend current law to forgive any income tax liability until the date the serviceman's missing status is terminated in cases where that date occurs later than the date of death. The proposal would also permit the wife of a deceased serviceman to claim the benefits of this forgiveness despite the expiration of the statute of limitations.

The proposed legislation would also permit the wife of a serviceman or the representative of his estate to defer filing any returns or the payment of any taxes until after the serviceman returns or his missing status is terminated. Also, it would permit the filing of joint returns by the spouse of a serviceman during the period he is missing in action, even though it is later determined that he died at an earlier date.

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

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

Sincerely yours,

George P. Shultz

George P. Shultz

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

Enclosures

4/6

THE SECRETARY OF THE TREASURY
WASHINGTON

FEB 21 1973

Dear Mr. President:

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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,

George P. Shultz

George P. Shultz

The Honorable
Spiro T. Agnew
President
United States Senate
Washington, D. C. 20515

Enclosures

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A BILL

To amend sections 112, 692, 6013, and 7508 of the Internal Revenue Code of 1954 for the relief of certain members of the Armed Forces of the United States returning from the Vietnam conflict combat zone, and for other purposes.

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

(a) Certain Combat Pay of Members of the Armed Forces.--Section 112 of the Internal Revenue Code of 1954 (relating to certain combat pay of members of the Armed Forces) is amended by revising subsections (a) (2) and (b) (2) respectively by striking out the words: "; but this paragraph shall not apply for any month during any part of which there are no combatant activities in any combat zone as determined under section (c) (3) of this section".

(b) Income Taxes of Members of Armed Forces on Death.--

(1) Section 692 (1) of such Code (relating to income taxes of members of armed forces on death) is amended by striking out the word "death," and inserting

in lieu thereof the following: "death (or, if later, in which falls the last date in which he is in missing status within the meaning of section 112 (d)),".

(2) If refund or credit of any overpayment for any taxable year resulting from the application of section 692 of such Code (as amended by paragraph (1)) is prevented at any time before the date one year after the date of the enactment of this Act by the operation of any law or rule of law, but would not have been so prevented if claim for refund or credit therefor were made on the due date for the return for the taxable year of his death (or any later year), such refund or credit of such overpayment may, nevertheless, be made or allowed if claim therefor is filed before one year after the date of the enactment of this Act.

(c) Joint Returns. -- Section 6013 of such Code (relating to joint returns of income tax by husband and wife) is amended by adding at the end thereof the following new subsection:

"(f) Missing in Action, etc. -- For purposes of this section and subtitle A --

"(1) General rule. -- The spouse of a serviceman or civilian who is missing as a result of service in a combat zone may elect in accordance with this subsection

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to file a joint return for any taxable year in which he is in a missing status, if such spouse is otherwise eligible to file a joint return. Such election shall be valid even if the missing serviceman or civilian was deceased prior to such taxable year, and in such event, except for purposes of section 692 (relating to income taxes of members of armed forces on death) the income tax liability of the missing serviceman or civilian, his spouse and his estate shall be determined as if he were alive for such year so long as the election remains unrevoked.

"(2) Missing. -- For purposes of this subsection a serviceman or civilian to which this subsection applies includes any individual referred to in 37 U.S.C. 558 and 5 U.S.C. 5568, and the term "missing status" has the same meaning as contained in 37 U.S.C. 551 (2) and 5 U.S.C. 5561 respectively, except that the period of missing status shall not include a period with respect to which it is officially determined under 37 U.S.C. 552 (c) that such a person is officially absent from his post of duty without authority.

"(3) Election. -- The election referred to in paragraph (1) may be made with respect to each taxable year by filing a joint return in accordance with subsection (a) and under such regulations as may be prescribed by the Secretary or his delegate. The election may be revoked by either spouse on or before the due date (including extensions) for such taxable year, and in the case of an executor or administrator, in accordance with subsection (a) (3)."

(d) Time for Performing Certain Acts Postponed by Reason of War --

(1) Section 7508 (a) of such Code (relating to time for performing acts postponed by reason of war) is amended by striking out the words "of such individual--" which appear immediately before paragraph (1) and inserting in lieu thereof "of such individual or the spouse of such individual--".

(2) Subsection (b) of section 7508 of such Code is redesignated subsection (d) and there are inserted immediately after subsection (a) the following:

"(b) Extension of Benefits. -- With respect to any tax liability of any person or his estate entitled to the benefits of subsection (a), the provisions of this section shall apply

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to the executor, administrator or conservator of the estate of such person.

"(c) Special Rule. -- The period of service in the area referred to in subsection (a), shall include the period during which an individual entitled to benefits under subsection (a) is in a missing status, within the meaning of section 112 (d)."

(e) Effective Date. -- The amendments made by subsections (a), (b), (c) and (d) shall apply for taxable years ending on or after February 28, 1961.

ANALYSIS OF TAX LEGISLATION PROPOSED FOR THE RELIEF OF CERTAIN MEMBERS OF THE ARMED FORCES OF THE UNITED STATES RETURNING FROM THE VIETNAM COMBAT ZONE

Section (a)--Combat Pay of Members of the Armed Forces

Section 112(a) and (b) of the Internal Revenue Code of 1954 currently exempts from gross income combat pay received for active service in the Armed Forces of the United States for any month in which the serviceman served in a combat zone or was hospitalized as a result of wounds, disease, or injury incurred while serving in a combat zone. This exclusion may not exceed $500 per month for commissioned officers.

A member of the Armed Forces who is hospitalized as a result of injury incurred in a combat zone in the waning days of the Vietnam conflict will not have his military pay excluded under section 112 for any month following the month of his injury in which there are no combatant activities in any combat zone. However, a serviceman injured at an earlier date whose period of hospitalization was entirely within the period of combatant activities would have had his military compensation treated as combat pay and excluded from gross income as provided by section 112. This provision of the bill would extend the exclusion of section 112 to cover military pay received by servicemen up through the month hospitalization ceases even if all combatant activities have terminated.

Section (b)--Income Taxes of Members of Armed Forces on Death

Section 692(1) of the Code forgives income taxes of servicemen dying while in active service in a combat zone or as a result of wounds, disease or injury incurred while serving in a combat zone. The forgiveness applies to the year of death and prior years of service in the combat zone.

When a serviceman is reported in a missing status for a number of years, and it is subsequently determined that he died at an earlier time while in missing status, his income (other than his combat pay excluded pursuant to section 112) is subject to taxation for years after the year of his death.

In general, the policy underlying section 692 was to recognize the hardships borne by the survivors of servicemen dying as a result of service in a combat zone and to attempt to alleviate such hardships by relieving their income from taxation for the period of service in a combat zone. In the case of families of servicemen classified as missing and later determined to have died at an earlier date, this status creates unusual difficulties, and the affairs of such families are subject to great uncertainty.

Accordingly, this bill would extend the benefits of current law and forgive the income tax liability of a serviceman who dies while in missing status for the entire period he was missing. In those instances when a widow has filed returns after the death of a deceased serviceman

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without claiming the benefits of section 692, this provision would permit her to claim the benefits of this income tax forgiveness within one year from the date of enactment of this bill.

Section (c)--Joint Returns

Section 6013 of the Internal Revenue Code permits the spouse of a deceased taxpayer to file a joint return for the year in which he died. This bill provides that the spouse of an individual who is a member of the Armed Forces or who is serving in support of the Armed Forces, and who is listed in a missing status, may file a joint return for such year even if it is subsequently determined that he was killed in an earlier year. If the spouse does file a joint return for a year after the serviceman or civilian has actually died, the serviceman or civilian will be considered to be alive for purposes of computing any income tax liability.

Section (d)--Disregarding Compliance Periods

Section 7508 of the Internal Revenue Code provides that the time an individual serves in, or in support of, the Armed Forces in an area designated by the President as a combat zone, plus any period of continuous hospitalization outside the United States as a result of injury received while serving in such combat zone, and the next 180 days thereafter, are to be disregarded in determining whether certain enumerated acts required under the Federal tax laws, (i.e., filing any returns or paying any taxes) are timely.

It is common for these individuals and their spouses to file joint returns under section 6013. This bill would, in general, permit the spouse of a serviceman and the representatives of his estate to defer filing any returns or paying any taxes until after the serviceman returns or his missing status is terminated.

Department of the TREASURY NEWS
OFFICE OF REVENUE SHARING
WASHINGTON, D.C. 20220
TELEPHONE WO4-8711

4/22

FOR IMMEDIATE RELEASE February 21, 1973

PROPOSED FINAL REGULATIONS FOR ADMINISTRATION OF REVENUE SHARING PROGRAM ARE PUBLISHED

Graham W. Watt, Director of the Office of Revenue Sharing, announced today the publication of the proposed final regulations for the administration of the revenue sharing program in the Federal Register of February 22, 1973.

"In promulgating these regulations we have tried to reflect the philosophy of general revenue sharing which is to return the decision-making authority to the state and local governments which are closest to the needs of their citizens," Mr. Watt stated.

The proposed regulations, which establish criteria for compliance with the State and Local Fiscal Assistance Act, provide for review and comment as stipulated under the Intergovernmental Cooperation Act of 1968. Local and state governments which would be affected by the new provisions are invited to submit comments, in triplicate, to the Chief Counsel, Office of Revenue Sharing by March 19, 1973. In addition, public hearings will be held on March 26, 1973.

"The regulations already reflect many of the comments which have been received on the interim regulations, published October 28, 1972," Mr. Watt pointed out. In addition, those comments resulting from this publication of proposed regulations will be thoroughly considered before the promulgation of the final regulations.

The Office of Revenue Sharing has updated, expanded and added to previous regulations.

In light of careful review of comments received on the interim regulations the section dealing with the discriminatory use of funds has been expanded.

(OVER)

In addition the section dealing with reporting and publicity of use of funds has been rewritten to require not only publication of fund use reports but to require that recipients make available the backup information on the reports to the news media and the public.

Also, the Office of Revenue Sharing has attempted to clarify the guidelines on the prohibition on the use of revenue sharing monies to obtain federal matching funds.

Finally, a new section has been added to the regulations setting out procedural requirements for the withholding and repayment of revenue sharing funds in instances of non-compliance with the Act.

Once adopted, these regulations will supersede the interim regulations, (published October 1972 and technically amended December 27, 1972) which have been in effect for the first two entitlement periods of this program.

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federal register

THURSDAY, FEBRUARY 22, 1973
WASHINGTON, D.C.

Volume 38 ■ Number 35

PART III

4/22A

DEPARTMENT OF THE TREASURY MONETARY OFFICES

■

FISCAL ASSISTANCE TO STATE AND LOCAL GOVERNMENTS

ENTITLEMENT PAYMENTS

Proposed Rule Making

DEPARTMENT OF THE TREASURY

Monetary Offices

[31 CFR Part 51]

FISCAL ASSISTANCE TO STATE AND LOCAL GOVERNMENTS

Entitlement Payments

Notice is hereby given that the regulations set forth in tentative form below are proposed to be prescribed in order to disburse entitlement payments to the States and units of local government under the State and Local Fiscal Assistance Act of 1972 for the entitlement period beginning January 1, 1973, and for entitlement periods subsequent thereto.

The State and Local Fiscal Assistance Act of 1972 (Public Law 92–512), customarily known as the General Revenue Sharing Act, provides for a total of $30.2 billion of assistance to State governments and general purpose units of local government over a 5-year period. While the fiscal assistance provided by the Act gives local governments considerable latitude in the use of the entitlement funds, the local governments must use the funds for priority operating expenditures (public safety, environmental protection, public transportation, health, recreation, libraries, social services for the poor or aged, and financial administration) or for capital expenditures. The States are given complete flexibility with regard to the type of expenditures made with entitlement funds.

All recipient governments must provide for the expenditure of entitlement funds in accordance with laws and procedures applicable to the expenditure of their own funds. Recipient governments must also use fiscal, accounting, and audit procedures conforming to the regulations proposed herein. Additionally, recipient governments may not use entitlement funds to match Federal funds for other Federal grant-in-aid programs where there is a requirement for matching Federal funds; nor may recipient governments use entitlement funds in any project or activity that discriminates on the basis of race, color, national origin, or sex. Recipient governments must comply with the provisions of the Davis-Bacon Act in the case of a construction project 25 percent or more of the costs of which are paid out of entitlement funds; and, must pay prevailing wage rates to certain governmental employees who are paid from entitlement funds.

Two-thirds of the amount allocated to each State area during each of the entitlement periods covered by the Act goes to the general purpose units of local government in that State area; the remaining one-third share goes to the State government.

Prior to the final adoption of these proposed regulations, consideration will be given to any comments or suggestions pertaining thereto which are received, in writing, in triplicate, on or before March 19, 1973. Written comments should be directed to the Director, Office of Revenue Sharing (Symbols CC), Department of the Treasury, Washington, D.C. 20226. In accordance with 31 CFR 1.4(h) written comments submitted in response to this solicitation are available to the public upon request therefor, unless confidential status of the submission has been requested in writing, and approved.

In addition, any person timely submitting written comments or suggestions who desires an opportunity to comment orally at a public hearing on these proposed regulations should submit his request, in writing, to the Director, Office of Revenue Sharing. A public hearing on these proposed regulations will be held on March 26, 1973, beginning at 10 a.m. in Conference Room B of the Departmental Auditorium on Constitution Avenue between 12th and 14th Streets NW., Washington, D.C. Such public hearing will be conducted pursuant to the following rule:

A person who wishes to be assured of being heard shall submit, within the time prescribed in this notice, an outline of the topics he wishes to discuss, and the time he wishes to devote to each topic. An agenda will then be prepared containing the order of presentation of oral comments and the time allotted to each presentation. Ordinarily, a period of 10 minutes will be the maximum time allotted to each person for making his oral comments. The oral comments, however, shall not be merely a restatement of matters the person has submitted in writing. Persons making oral comments should be prepared to answer questions not only on the topics listed in his outline, but also in connection with the matters relating to his written comments.

These proposed regulations are issued under the authority of the State and Local Fiscal Assistance Act of 1972 (title I, Public Law 92–512), and Treasury Department Order No. 224 dated January 26, 1973 (38 FR 3342).

[SEAL] GRAHAM W. WATT,
Director,
Office of Revenue Sharing.

Approved: February 16, 1973.

SAMUEL R. PIERCE, Jr.,
General Counsel.

PART 51—FISCAL ASSISTANCE TO STATE AND LOCAL GOVERNMENTS

AUTHORITY: The provisions of this Part 51 are issued under the State and Local Fiscal Assistance Act of 1972 (title I, Public Law 92–512); and 5 U.S.C. 301.

Subpart A—General Information

§ 51.0 Scope and application of regulations.

(a) *In general.* The rules and regulations in this part are prescribed for carrying into effect the State and Local Fiscal Assistance Act of 1972 (Title I, Public Law 92–512) applicable to entitlement periods beginning January 1, 1973. Subpart A sets forth general information and definitions of terms used in this part. Subpart B prescribes reports required under this part and publicity concomitant thereto. Subpart C contains rules regarding the computation, allocation and adjustment of entitlement. Subpart D prescribes prohibitions and restrictions on the use of funds. Subpart E prescribes fiscal procedures and auditing requirements. Subpart F contains rules relating to procedure and practice requirements where a recipient government has failed to comply with any provision of this part.

(b) *Saving clause.* Any cause of action arising out of noncompliance with the interim regulations covering payments made for the first and second entitlement periods (January 1, 1972, through June 30, 1972, and July 1, 1972, through December 31, 1972) shall continue to be covered by such regulations and any proceeding commenced thereon shall be governed by the procedures set forth in Subpart F of this part.

§ 51.1 Establishment of Office of Revenue Sharing.

There is established in the Office of the Secretary of the Treasury the Office of Revenue Sharing. The office shall be headed by a Director who shall be appointed by the Secretary of the Treasury. The Director shall perform the functions, exercise the powers and carry out the duties vested in the Secretary of the Treasury by the State and Local Fiscal Assistance Act of 1972, Title I, Public Law 92–512.

§ 51.2 Definitions.

As used in this part (except where the context clearly indicates otherwise, or where the term is defined elsewhere in this part) the following definitions shall apply:

(a) "Act" means the State and Local Fiscal Assistance Act of 1972, Title I of Public Law 92–512, approved October 20, 1972.

(b) "Chief executive officer" of a unit of local government means the elected official, or the legally designated official, who has the primary responsibility for the conduct of that unit's governmental affairs. Examples of the "chief executive officer" of a unit of local government may be: The elected mayor of a municipality, the elected county executive of a county, or the chairman of a county commission or board in a county that has no elected county executive, or such other official as may be designated pursuant to law by the duly elected governing body of the unit of local government; or the chairman, governor, chief, or president (as the case may be) of an Indian tribe or Alaskan native village.

(c) "Department" means the Department of the Treasury.

(d) "Entitlement" means the amount of payment to which a State government or unit of local government is entitled as determined by the Secretary pursuant to an allocation formula contained in the Act and as established by regulation under this part.

(e) "Entitlement funds" means the amount of funds paid or payable to a State government or unit of local government for the entitlement period.

(f) "Entitlement period" means one of the following periods of time:

(1) The 6-month period beginning January 1, 1973, and ending June 30, 1973.

(2) The fiscal year beginning July 1, 1973, and ending June 30, 1974.

(3) The fiscal year beginning July 1, 1974, and ending June 30, 1975.

(4) The fiscal year beginning July 1, 1975, and ending June 30, 1976.

(5) The 6-month period beginning July 1, 1976, and ending December 31, 1976.

(g) "Governor" means the Governor of any of the 50 States or the Commissioner of the District of Columbia.

(h) "Independent public accountants" means independent certified public accountants or independent licensed public accountants certified or licensed by a regulatory authority of a State or other political subdivision of the United States.

(i) "Indian tribes and Alaskan native villages' means those Indian tribes and Alaskan native villages which have a recognized governing body and which perform substantial governmental functions. Certification to the Secretary by the Secretary of the Interior or by the Governor of a State that an Indian tribe or an Alaskan native village has a recognized governing body and performs substantial governmental functions, shall constitute prima facie evidence of that fact.

(j) "Recipient government" means a State government or unit of local government as defined in this section.

(k) "Secretary" means the Secretary of the Treasury or any person duly authorized by the Secretary to perform the function mentioned.

(l) "State government" means the government of any of the 50 States or the District of Columbia.

(m) "Unit of local government" means the government of a county, municipality, township, or other unit of government below the State which is a unit of general government and which shall be determined on the basis of the same principles as used by the Bureau of the Census for general statistical purposes. The term "unit of local government" shall also include the recognized governing body of an Indian tribe or Alaskan native village which performs substantial governmental functions. The District of Columbia, in addition to being treated as a State, shall also be treated as a county area which has no units of local government (other than itself) within its geographic area.

§ 51.3 Procedure for effecting compliance.

If the Secretary determines that a recipient government has failed to comply substantially with any provision of this part, and after giving reasonable notice and opportunity for a hearing to the Governor of the State or the chief executive office of the unit of local government pursuant to Subpart F of this part, the Secretary shall notify the recipient government that if it fails to take corrective action within 60 days from the date of receipt of such notification further payments to it will be withheld for any subsequent entitlement period until such time as the Secretary is satisfied that appropriate corrective action has been taken and that there will no longer be any failure to comply. Until he is satisfied, the Secretary shall make no further payments of such amounts. The procedure prescribed in this section shall not be used if another procedure is specified in another section of this part.

Subpart B—Reports and Written Communications

§ 51.10 Reports to the Secretary; Assurances.

(a) *Reports for review and evaluation.* The Secretary may require each recipient government receiving entitlement funds to submit such annual and interim reports (other than those required by § 51.11) as may be necessary to provide a basis for evaluation and review of compliance with and effectiveness of the provisions of the Act and regulations of this part.

(b) *Requisite assurances for receipt of entitlement funds.* Each Governor of a State or chief executive officer of a unit of local government, in order to qualify for entitlement funds, must file a statement of assurances when requested by the Secretary, on a form to be provided, that such government will abide by certain specific requirements of the Act and the prohibitions and restrictions of Subparts D and E of this part, with respect to the use of entitlement funds. The Secretary will afford each Governor the opportunity for review and comment to the Secretary on the adequacy of the assurances by units of local government in his State.

§ 51.11 Report on Planned Use and Actual Use of Funds.

(a) *Planned use report.* Each recipient government which expects to receive funds under the Act shall submit to the Secretary a report, on a form to be provided, of the specific amounts and purposes for which it plans to spend the funds which it expects to receive for an entitlement period. The initial planned use report for the entitlement period January 1, 1973, through June 30, 1973, shall be filed with the Secretary on a date he shall determine. Thereafter, each planned use report shall be filed prior to the beginning of an entitlement period as defined in § 51.2(f).

(b) *Actual use report; status of trust fund.* Each recipient government which receives funds pursuant to the Act shall submit to the Secretary an annual report, on a form to be provided, of the amounts and purposes for which such funds have been spent or otherwise transferred from the trust fund (as defined in § 51.40(a)) during the reporting period. Such report also shall state any interest earned on entitlement funds during the period and the balance of the trust fund as of the date of the report's submission. Such reports shall be filed annually with the Department within 60 days of June 30. All such funds must be used, obligated, or appropriated within the time period specified in § 51.40(b).

§ 51.12 Certifications.

The Secretary shall require a certification by the Governor, or the chief executive officer of the unit of local government, that no entitlement funds have been used in violation of the prohibition contained in § 51.30 against the use of entitlement funds for the purpose of obtaining matching Federal funds. In the case of a unit of local government the Secretary shall require a certification by the chief executive officer that entitlement funds received by it have been used only for priority expenditures as prescribed by § 51.31. The certifications required by this section shall be in such form as the Secretary may prescribe.

§ 51.13 Publication and publicity of reports; public inspection.

(a) *Publication of required reports.* Each recipient government must publish in a newspaper a copy of each report required to be filed under § 51.11 (a) and (b) prior to the time such report is filed with the Secretary. Such publication shall be made in a newspaper which is published within the State and has general circulation within the geographic area of the recipient government involved. In the case of a recipient government located in a metropolitan area which adjoins and extends beyond the boundary of the State, the recipient government may satisfy the requirement of this section by publishing its reports in a metropolitan newspaper of general circulation even though such newspaper may be located in the adjoining State from the recipient government.

(b) *Publicity.* Each recipient government, at the same time as required for publication of reports under paragraph (a) of this section, shall advise the news media within its geographic area of the publication of its reports made pursuant to paragraph (a) of this section, and shall provide copies of such reports to the news media on request.

(c) *Public inspection.* Each recipient government shall make available for public inspection such additional detailed information pursuant to such guidelines as the Secretary may provide, to support the information and data submitted on each of the reports required under §51.11 (a) and (b). Such additional detailed information shall be available for public inspection at a specified location during normal business hours.

§ 51.14 Reports to the Bureau of the Census.

It shall be the obligation of each recipient government to comply promptly with requests by the Bureau of the Census (or by the Secretary) for data and information relevant to the determination of entitlement allocations. Failure of any recipient government to so comply may place in jeopardy the prompt receipt by it of entitlement funds.

Subpart C—Computation and Adjustment of Entitlement

§ 51.20 Data.

(a) *In general.* The data used in determination of allocations and adjustments thereto payable under this part will be the latest and most complete data supplied by the Bureau of the Census or such other sources of data as in the judgment of the Secretary will provide for equitable allocations.

(b) *Computation and payment of entitlements.* (1) Allocations will not be made to any unit of local government if the available data is so inadequate as to frustrate the purpose of the Act. Such units of local government will receive an entitlement and payment when current and sufficient data become available as necessary to permit an equitable allocation.

(2) Payment to units of local government for which the Secretary has not received an address confirmation will be delayed until proper information is available to the Secretary.

(3) Where the Secretary determines that the data provided by the Bureau of the Census or the Department of Commerce are not current enough, or are not comprehensive enough, or are otherwise inadequate to provide for equitable allocations he may use other data, including estimates. The Secretary's determination shall be final and such other additional data and estimates as are used, including the sources, shall be publicized by notice in the FEDERAL REGISTER.

(c) *Special rule for 6 month entitlement periods.* For entitlement periods which encompass only one-half of a year, the adjusted taxes and intergovernmental transfers of any unit of local government for that half-year will be estimated to be one-half of the annual amounts.

(d) *Units of local government located in more than one county area.* In cases where a unit of local government is located in more than one county, each part of such unit is treated for allocation purposes as a separate unit of government, and the population, adjusted taxes, and intergovernmental transfers of such parts are estimated on the basis of the ratio which the population of such part bears to the population of the entirety of such unit.

§ 51.21 Adjusted taxes.

(a) *In general.* Tax revenues are compulsory contributions to a unit of local government exacted for public purposes, as such contributions are determined by the Bureau of the Census for general statistical purposes. The term "adjusted taxes" means the tax revenues adjusted by excluding an amount equal to that portion of such compulsory contributions which is properly allocable to school operations, debt service on school indebtedness, school capital outlays, and other educational purposes.

(b) *Procedure for exclusion of tax revenues for education.* The tax revenues exacted by a unit of local government shall be adjusted to exclude any such tax revenues used for financing education in a manner consistent with the following provisions:

(1) Where a unit of local government finances education from a specific fund and lists tax revenues to the fund or levies a separate tax for purposes of education, such amounts as determined will constitute the tax revenues for education.

(2) If tax revenues for purposes of education are not separately identifiable because education is financed by expenditure or transferring of moneys from a general fund (or similarly named fund) to a school fund or funds, then the ratio of tax revenues (as defined in paragraph (a) of this section) to the total revenues in such fund shall be calculated, and that ratio multiplied by the expenditure or transfer of moneys from such fund to the school fund shall be equated with the tax revenues properly allocable to expenses for education. The phrase "total revenues in such fund" means cash and securities on hand in the general fund (or similarly named fund) at the beginning of the fiscal year, plus all revenues to the fund (other than trust or agency revenues) less cash and securities on hand at the end of the fiscal year. Trust and agency funds are those held specifically for individuals or governments for which no discretion can be exercised as to the amounts to be paid to the recipient.

(3) If any instance where neither paragraph (b) (1) nor (2) of this section permits determination of school taxes, then any procedure deemed equitable by the Secretary shall be utilized to ascertain adjusted taxes.

(c) *Validity of adjusted tax data.* Allocation of funds under the Act will be based on data reported by States and units of local governments to the Bureau of the Census and shall be in accordance with definitions established by the Bureau. No unit of government shall report to the Department of the Treasury or the Bureau of the Census in a manner which attempts to circumvent or frustrate the intent of this section.

§ 51.22 Date for determination of allocation.

(a) *In general.* Pursuant to the provisions of § 51.20 (a) and (b) (3), the determination of the data definitions upon which the allocations and entitlements for an entitlement period is to be calculated shall be made as of the day immediately preceding the beginning of the entitlement period. The final date upon which determinations of allocations and entitlements, including adjustments thereto, may be made for an entitlement period shall be determined by the Secretary an soon as practicable after the close of that entitlement period and shall be publicized by notice in the FEDERAL REGISTER.

(b) *Time limitation and minimum adjustment.* If prior to the date determined by the Secretary pursuant to paragraph (a) of this section, it is established to the satisfaction of the Secretary by factual evidence and documentation that the data used in the computation of an allocation is erroneous and, if corrected, would result in an increase or decrease of an entitlement of $200 or more of entitlement funds, an adjustment will be made.

(c) *Adjusted taxes and intergovernmental transfers.* The dates for determining the amount of adjusted taxes and intergovernmental transfers of a unit of local government will be the fiscal year of such unit ending during the 12 months prior to July 1, 1971. If a more recent period is used, it shall be such fiscal year that can be uniformly assembled for all units of government prior to the beginning of the affected entitlement period.

§ 51.23 **Boundary changes, governmental reorganization, etc.**

(a) *In general.* Boundary changes, governmental reorganizations, or changes in State statutes or constitutions occurring prior to or during an entitlement period which were not taken into account during the initial allocation shall, if not within the scope of paragraph (d) of this section, affect such allocation or payments in a manner consistent with the following provisions:

(1) A boundary change, governmental reorganization, or change in State statutes or constitution relevant to the computation of an entitlement of a unit of local government under the Act, occuring prior to the beginning of an entitlement period shall result in an alteration to the entitlement of that unit if brought to the attention of the Bureau of the Census within 60 days (or by June 30, 1973, in case of the third entitlement period) after the beginning of such entitlement period.

(2) A boundary change, governmental reorganization, or change in State statutes or constitution relevant to the computation of entitlement of a unit of local government under the Act, occurring during an entitlement period shall not result in a change to the entitlement of that unit until the next entitlement period. However, payment tendered to such unit for the entitlement period may be redistributed pursuant to the provisions of paragraphs (b) and (c) of this section.

(b) *New units of local government.* A unit of local government which came into existence during an entitlement period shall first be eligible for an entitlement allocation for the next entitlement period. However, if such unit is a successor government, it shall be eligible to receive the entitlement payment of the unit or units of local government to which it succeeded in accordance with the conditions of the succession.

(c) *Dissolution of units of local government.* A unit of local government which dissolved, was absorbed or ceased to exist as such during an entitlement period is eligible to receive an entitlement payment for that entitlement period: *Provided,* That such unit of local government is in the process of winding up its governmental affairs or a successor unit of local government has legal capacity to accept and use such entitlement funds. Entitlement payments which are returned to the Secretary because of the cessation of existence of a unit of local government shall be placed in the State and Local Government Fiscal Assistance Trust Fund until such times as they can be redistributed according to the conditions under which the unit of local government ceased to exist.

(d) *Limitations on adjustment for annexations.* (1) Annexations by units of local government having a population of less than 5,000 on April 1, 1970, shall not affect the entitlement of any unit of local government for an entitlement period unless the Secretary determines that adjustments pursuant to such annexations would be equitable and would not be unnecessarily burdensome, expensive, or otherwise impracticable.

(2) Annexations of areas with a population of less than 250, or less than 5 percent of the population of the gaining government, shall not affect the entitlement of any unit of local government.

(e) *Certification.* Units of local government affected by a boundary change, governmental reorganization, or change in State statutes or constitution shall, before receiving an entitlement adjustment or payment redistribution pursuant to this section, obtain State certification that such change was accomplished in accordance with State law. The certifying official shall be designated by the Governor, and such certification shall be submitted to the Bureau of the Census.

§ 51.24 **Waiver of entitlement; nondelivery of check; insufficient data.**

(a) *Waiver.* Any unit of local government may waive its entitlement for any entitlement period: *Provided,* The chief executive officer of such unit notifies the Secretary that the entitlement payment is being waived, and returns the entitlement payment to the Secretary within 60 days of the date of the check. The amount of entitlement waived shall be added to and shall become a part of, the applicable entitlement of the next highest unit of government eligible to receive entitlement funds in that State in which the unit of government waiving entitlement is located. A waiver of entitlement by such unit of local government shall be deemed an irrevocable waiver for that entitlement payment.

(b) *Nondelivery.* Entitlement funds for any entitlement period which are returned by the U.S. Postal Service to the Department of the Treasury as being nondeliverable because of incorrect address information, or which are unclaimed for any reason, shall be placed in the State and Local Government Fiscal Assistance Trust Fund until such time as payment can be made.

(c) *Insufficient data.* Entitlement funds for any entitlement period which are withheld from payment because of insufficient data upon which to compute the entitlement, or for which payment cannot be made for any other reason, shall remain in the State and Local Government Fiscal Assistance Trust Fund until such time as payment can be made.

§ 51.25 **Reservation of funds and adjustment of entitlement.**

(a) *Reservation of entitlement funds.* In order to make subsequent adjustments to an entitlement payment under this part which may be necessitated because of insufficient or erroneous data, or for any other reason, the Secretary shall reserve in the State and Local Government Fiscal Assistance Trust Fund such percentage of the total entitlement funds for any entitlement period as in his judgment shall be necessary to insure that there will be sufficient funds available so that all recipient governments will receive their full entitlements. Those reserve funds will be distributed during subsequent entitlement periods to recipient governments as promptly as possible after the close of the time for adjustments pursuant to § 51.22.

(b) *Adjustment to future entitlement payments.* Adjustment to an entitlement of a recipent government will ordinarily be effected through alteration to entitlement payments for future entitlement periods unless there is a downward adjustment which is so substantial as to make future payment alterations impracticable or impossible. In such case the Secretary may demand that the funds in excess of the initial entitlement included in an entitlement payment be repaid to the Secretary, and such funds shall be promptly repaid on demand.

§ 51.26 **State must maintain transfers to local governments.**

(a) *General rule.* The entitlement of any State government for any entitlement period beginning on or after July 1, 1973, shall be reduced by the amount (if any) by which—

(1) The average of the aggregate amounts transferred by the State government out of its own sources during such period (or during that State's fiscal year ending on or immediately prior to the end of such period) and the preceding entitlement period (or such fiscal year) to all units of local government (as defined in § 51.2(m)) in such State, is less than,

(2) The similar aggregate amount for the 1-year period beginning July 1, 1971 (or that State's fiscal year ending on or immediately prior to the end of such period).

For purposes of paragraph (a)(1) of this section, the amount of any reduction in the entitlement of a State government under this section for any entitlement period shall, for subsequent entitlement periods, be treated as an amount transferred by the State government out of its own sources during such period to units of local government in such State. The phrase "own sources" means all sources of State revenue (including the State's revenue sharing entitlement funds) but excluding intergovernmental revenues received from the Federal Government.

(b) *Measurement of maintenance of effort.* In those States that do not have an accounting system providing an audit trail for all funds concerned (from own source to final application) in intergovernmental transfer to units of local government (such as those States in which intergovernmental transfers to units of local government are made from a commingled fund with no identification as to specific revenue source), the following formula may be applied by the Secretary to establish the base year intergovernmental transfers to units of local government from own sources and to generally monitor level of accordance with the maintenance provision of paragraph (a) of this section during future entitlement periods:

(1) It shall be assumed that the ratio of a State's own source intergovernmental transfers to units of local government to that State's total intergovernmental transfers to units of local government is equal to the ratio of that State's own source revenues to its total revenues. Thus, for a State in which such formula may be applied, its base year own source intergovernmental transfers to units of local government shall be assumed to equal its total intergovernmental transfers to units of local government in the base year multiplied by its own source revenue in the base year divided by its total revenues in the base year.

(2) In a State in which the formula is applied, the State's own source intergovernmental transfers to units of local government in a future entitlement period shall be assumed to equal the average of—

(i) The State's total intergovernmental transfers to units of local government during that period (or that State's fiscal year ending on or immediately prior to the end of such period) multiplied by its own source revenue in that period (or such fiscal year) divided by its total revenues in that period (or such fiscal year) and

(ii) The State's total intergovernmental transfers to units of local government during the preceding entitlement period (or that State's fiscal year ending on or immediately prior to the end of such period) multiplied by its own source revenue in that period (or such fiscal year) divided by its total revenues in that period (or such fiscal year).

(3) Therefore, in a State in which the formula is applied, maintenance (for a given entitlement period) of intergovernmental transfer effort to units of local government will be measured by the difference between that State's average aggregate intergovernmental transfers to units of local government (over the appropriate periods) as calculated by employing the method described in paragraph (b)(2) of this section and that State's own source intergovernmental transfers to units of local government in the base period as calculated by employing the method described in paragraph (b)(1) of this section.

(4) Should the application of this formula during any entitlement period indicate nonmaintenance, for example, should a State's calculated own source average aggregate intergovernmental transfers to units of local government (over the appropriate periods) be less than such transfers as calculated for the base period, the difference (as defined in paragraph (b)(3) of this section) shall constitute the future indicated reduction in that State's entitlement unless such State can document to the Secretary that the fact or amount of nonmaintenance as determined by application of the formula is inaccurate.

(c) *Alternative procedure.* If the Secretary shall determine that application of the formula set forth in paragraph (b) of this section in a particular case provides an inaccurate or unfair measure of transfer effort, then any formula, procedure, or method deemed equitable by the Secretary, may be utilized to measure such transfer effort for the purpose of implementing the maintenance provision.

(d) *Adjustment where State assumes responsibility for category of expenditures.* If the State government establishes to the satisfaction of the Secretary that since June 30, 1972, it has assumed responsibility for a category of expenditures which (before July 1, 1972) was the responsibility of local governments located in such State, then, the aggregate amount taken into account under paragraph (a)(2) of this section shall be reduced to the extent that increased State government spending (out of its own sources) for such category has replaced corresponding amounts which for the 1-year period beginning July 1, 1971, it transferred to units of local government.

(e) *Adjustment where new taxing powers are conferred upon local governments.* If a State establishes to the satisfaction of the Secretary that since June 30, 1972, one or more units of local government within such State have had conferred upon them new taxing authority, then, the aggregate amount taken into account under paragraph (a)(2) of this section shall be reduced to the extent of the larger of—

(1) An amount equal to the amount of the taxes collected by reason of the exercise of such new taxing authority by such local governments, or

(2) An amount equal to the amount of the loss of revenue to the State by reason of such new taxing authority being conferred on such local governments.

No amount shall be taken into consideration under paragraph (e)(1) of this section if such new taxing authority is an increase in the authorized rate of tax under a previously authorized kind of tax, unless the State is determined by the Secretary to have decreased a related State tax.

(f) *Special rule for period beginning July 1, 1973.* In the case of the entitlement period beginning July 1, 1973, the preceding entitlement period for purposes of paragraph (a)(1) of this section shall be treated as being the 1-year period beginning July 1, 1972.

(g) *Special rule for period beginning July 1, 1976.* In the case of the entitlement period beginning July 1, 1976, and ending December 31, 1976, the aggregate amount taken into account under paragraph (a)(1) of this section for the preceding entitlement period and the aggregate amount taken into account under paragraph (a)(2) of this section shall be one-half of the amounts which (but for this paragraph (g)) would be taken into account.

(h) *Report by Governor.* Pursuant to the authority of § 51.10, and in order to effect compliance with this section, the Governor of each State shall submit to the Secretary within 90 days from June 30 of each year (or within 90 days of the State's fiscal year ending on or immediately prior to June 30), on a form to be provided, the following data for those entitlement periods or that State's fiscal years specified on the report:

(1) The State's own source revenues.

(2) The State's total revenues.

(3) The State's own source transfers to units of local government.

(4) The State's total transfers to units of local government.

(i) *Reduction in entitlement.* If the Secretary has reason to believe that paragraph (a) of this section requires a reduction in the entitlement of any State government for any entitlement period, he shall give reasonable notice and opportunity for hearing to the State. If, thereafter, he determines that paragraph (a) of this section requires the reduction of such entitlement, he shall also determine the amount of such reduction and shall notify the Governor of such State of such determinations and shall withhold from subsequent payments to such State government under this subtitle an amount equal to such reduction.

(j) *Transfer to general fund.* An amount equal to the reduction in the entitlement of any State government which results from the application of this section (after any judicial review) shall be transferred from the trust fund to the general fund of the Treasury on the day on which such reduction becomes final.

§ 51.27 Optional formula.

(a) *In general.* A State government may by law provide for the allocation of entitlement funds among county areas, or among units of local government (other than county governments, Indian tribes, and Alaskan native villages): (1) On the basis of the population multiplied by the general tax effort factors of such areas or units of local governments; or, (2) on the basis of the population multiplied by the relative income factors of such areas or units of local government; or, (3) on the basis of a combination of those two factors. Any State which provides by law for such a variation in the allocation formula provided by subsections 108(a) or 108(b) (2) and (3) of the Act, shall notify the Secretary of such law not later than 30 days before the beginning of the first entitlement period to which such law is to apply. Any such law shall:

(1) Provide for allocating 100 percent of the aggregate amount to be allocated under subsections 108(a) or 108(b) (2) and (3) of the Act;

(2) Apply uniformly throughout the State; and

(3) Apply during the period beginning on the first day of the first entitlement period to which it applies and ending on December 31, 1976.

(b) *Single legislation required.* If a State government alters its county area allocation formula or its local government allocation formula, or both, such alteration may be made only once and must be made in the same legislative enactment.

(c) *Certification required.* Paragraph (a) of this section shall apply within a State only if the Secretary certifies that the State law complies with the requirements of such paragraph. The Secretary shall not certify any such law with respect to which he receives notification later than 30 days prior to the first entitlement period during which it is to apply.

§ 51.28 Adjustment of data factors.

The data factors and data definitions used in computing entitlements under the Act for any entitlement period will be made available to each State government and unit of local government as soon as practicable after the beginning of an applicable entitlement period. Each such government will be given a reasonable opportunity to question those data factors by providing the Department with factual documentation demonstrating evidence of error. If the Secretary determines that any data factors used were erroneous, necessary adjustments will be made. Data factors which are used for more than one entitlement period will be subject to challenge and adjustment only for the first entitlement period in which they were used.

§ 51.29 Adjustment for maximum and minimum per capita entitlement; 100 percent criterion.

(a) *County area maximum and minimum per capita entitlement*—(1) *In general.* Pursuant to section 108(a)(6) of the Act, the per capita amount allocated to any county area shall be not less than 20 percent, nor more than 145 percent, of two-thirds of the amount allocated to the State under section 106 of the Act, divided by the population of that State.

(2) *One hundred forty-five-percent rule.* If a county area allocation is greater than the 145-percent limit, its allocation shall be reduced to the 145-percent level and the resulting surplus shall be shared proportionately by all remaining unconstrained county areas.

(3) *Twenty-percent rule.* If, after the application of paragraph (a)(2) of this section, a county area allocation is less than the 20-percent limit, its allocation shall be increased to the 20-percent level and the resulting deficit shall be shared proportionately by all remaining unconstrained county areas.

(b) *Local government (other than a county government)*—(1) *In general.* Except as provided below, the per-capita amount allocated to any unit of local government (other than a county government) shall be not less than 20-percent, nor more than 145-percent, of two-thirds of the amount allocated to the State under section 106 of the Act, divided by the population of that State.

(2) *One hundred forty-five-percent rule.* If a unit of local government is allocated an amount greater than the 145-percent limit, its allocation shall be reduced to that level.

(3) *Twenty-percent rule.* If a unit of local government is allocated an amount less than the 20-percent limit, its allocation shall be increased to the lower of the 20-percent limit or 50 percent of the sum of that unit's adjusted taxes and transfers.

(c) *One hundred-percent criterion.* If the amounts allocated to recipient governments of a State do not total 100 percent of the amount allocated to that State, the amount to be allocated to county areas shall be adjusted appropriately, and the allocation process shall be repeated until the amounts allocated to recipient governments of a State total 100 percent of the amount allocated to that State.

Subpart D—Prohibition and Restrictions on Use of Funds

§ 51.30 Matching funds.

(a) *In general.* No recipient government may use, directly or indirectly, any part of its entitlement funds as a contribution in order to obtain any matching Federal funds under any Federal program. The indirect use of entitlement funds to match Federal funds is defined to mean the allocation of entitlement funds to a nonmatching expenditure and thereby releasing or displacing local funds which are used for the purpose of matching Federal funds. This prohibition on use of entitlement funds as matching funds applies to Federal programs where Federal funds are required to be matched by non-Federal funds and to Federal programs which allow matching from either Federal or non-Federal funds.

(b) *Certification required.* Pursuant to § 51.12, the chief executive officer of each recipient government must certify to the Secretary that entitlement funds received by it have not been used in violation of this section.

(c) *Increased State or local government revenues.* No recipient government shall be determined to have used funds in violation of paragraph (a) of this section with respect to any funds received for any entitlement period to the extent that net revenues received by it from its own source during such period exceed the net revenues received by it from its own sources during the 1-year period beginning July 1, 1971 (or one-half of such net revenues, in the case of an entitlement period of 6 months).

(d) *Presumptions of compliance.* No recipient government shall be determined to have used entitlement funds in violation of this section to the extent that:

(1) The expenditure of entitlement funds was accompanied by an aggregate increase in nonmatching funds expenditures.

(2) The receipt of entitlement funds permitted that government to decrease its other revenues without a commensurate reduction in its nonmatching expenditures: *Provided,* Nonentitlement revenue is not less than the local matching funds contribution.

(3) The matching funds contribution in question is accounted for by an in-kind contribution which was not financed directly or indirectly with entitlement funds.

(e) *Determination by Secretary of the Treasury.* If the Secretary has reason to believe that a recipient government has used entitlement funds to match Federal funds in violation of the Act, the Secretary shall give such government notice and opportunity for hearing. If the Secretary determines that such government has, in fact, used funds in violation of this section, he shall notify such government of his determination and shall request repayment to the United States of an amount equal to the funds so used. To the extent that such government fails to repay such amount, the Secretary shall withhold from subsequent entitlement payments to that government an amount of entitlement funds equal to the funds used in violation of this section or, if this method is impracticable, the Secretary may refer the matter to the Attorney General for appropriate civil action.

(f) *Use of entitlement funds to supplement Federal grant funds.* The prohibition on use of entitlement funds contained in paragraph (a) of this section does not prevent the use of entitlement funds to supplement other Federal grant funds. For example, if expenditures for a project exceed the amount available from non-Federal funds plus matched Federal funds, the recipient government may use entitlement funds to defray the excess costs: *Provided, however,* That the entitlement funds are not used to match other Federal funds; and: *Provided further,* That in the case of a unit of local government, the use of entitlement funds to supplement Federal grants is restricted to the category of expenditures as set forth in § 51.31.

§ 51.31 Permissible expenditures.

(a) *In general.* Entitlement funds received by units of local government may be used only for priority expenditures. As used in this part, the term "priority expenditures" means:

(1) Ordinary and necessary maintenance and operating expenses for—

(i) Public safety (including law enforcement, fire protection, and building code enforcement);

(ii) Environmental protection (including sewage disposal, sanitation, and pollution abatement);

(iii) Public transportation (including transit systems and streets and roads);

(iv) Health;

(v) Recreation;

(vi) Libraries;

(vii) Social services for the poor or aged; and

(viii) Financial administration, and

(2) Ordinary and necessary capital expenditures authorized by law. No unit of local government may use entitlement funds for nonpriority expenditures which are defined as any expenditures other than those included in paragraph (a)(1) and (2) of this section. Pursuant to § 51.12, the chief executive officer of each unit of local government must certify to the Secretary that entitlement funds received by it have been used only for priority expenditures as required by the Act.

(b) *Effect of noncompliance.* In the case of a unit of local government which uses an amount of entitlement funds for other than priority expenditures as defined in paragraph (a) of this section, it will pay over to the Secretary (for deposit in the general fund of the Treasury) an amount equal to 110 percent of any amount expended in violation of paragraph (a) of this section, unless such amount of entitlement funds is promptly repaid to the trust fund of the local government after notice by the Secretary and opportunity for corrective action.

§ 51.32 Discrimination.

(a) *Discrimination prohibited.* No person in the United States shall, on the ground of race, color, national origin, or sex, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under, any program or activity funded in whole or in part with entitlement funds made available pursuant to subtitle A of title I of the Act. For purposes of this section "program or activity" is defined as any function conducted by an identifiable administrative unit of the recipient government. "Funded in whole or in part with entitlement funds" means that entitlement funds in any amount have been transferred from the recipient government's trust fund to an identifiable administrative unit and disbursed in a program or activity.

(b) *Specific discriminatory actions prohibited.* (1) A recipient government may not, under any program or activity to which the regulations of this section may apply, directly or through contractual or other arrangements, on the grounds of race, color, natural origin, or sex:

(i) Deny any service or other benefit provided under the program or activity.

(ii) Provide any service or other benefit which is different, or is provided in a different form from that provided to others under the program or activity.

(iii) Subject to segregated or separate treatment in any facility in, or in any matter or process related to receipt of any service or benefit under the program or activity.

(iv) Restrict in any way the enjoyment of any advantage or privilege enjoyed by others receiving any service or benefit under the program or activity.

(v) Treat an individual differently from others in determining whether he satisfies any admission, enrollment, eligibility, membership, or other requirement or condition which individuals must meet in order to be provided any service or other benefit provided under the program or activity.

(vi) Deny an opportunity to participate in a program or activity as an employee.

(2) A recipient government may not utilize criteria or methods of administration which have the effect of subjecting individuals to discrimination on the basis of race, color, national origin, or sex, or have the effect of defeating or substantially impairing accomplishment of the objectives of the program or activity with respect to individuals of a particular race, color, national origin, or sex.

(3) A recipient government in determining the site or location of facilities may not make selections of such site or location which have the effect of excluding individuals from, denying them the benefits of, or subjecting them to discrimination on the grounds of race, color, national origin, or sex from, the benefits of an activity or program; or which have the purpose or effect of defeating or substantially impairing the accomplishment of the objectives of the Act and of this section.

(4) A recipient government shall not be prohibited by this section from taking any action to ameliorate an imbalance in services or facilities provided to any geographic area or specific group of citizens within its jurisdiction, where the purpose of such action is to overcome prior discriminatory practice or usage.

(c) *Assurances required.* Pursuant to § 51.10(b), each Governor of a State or chief executive officer of a unit of local government shall include, in the assurances to the Secretary required by that section, a statement that all programs and activities funded in whole or in part by entitlement funds will be conducted in compliance with the requirements of this section. Such assurances shall be in a form prescribed by the Secretary.

(d) *Complaints and investigations.* Any person who believes himself, or any specific class of persons who believe themselves, to be subjected to discrimination prohibited by this section, may by himself or by a representative file with the Secretary a written report setting forth the nature of the discrimination alleged and the facts upon which the allegation is based. If the Secretary has reason to believe that the report shows a recipient government has failed to comply with the provisions of this part, he will cause an investigation to be made with respect to the facts and circumstances alleged in the report and with respect to the program or activity concerned. Such investigation may be made, if necessary, with the assistance of complaints or of the recipient government. No representative of a recipient government nor any of its agencies shall intimidate, threaten, coerce, or discriminate against any person or class of persons because of testimony, assistance, or participation in an investigation, proceeding, or hearing under this section.

(e) *Compliance reviews.* The Secretary shall monitor and determine compliance of recipient governments with the requirements of this section and of the Act. Compliance reviews will be undertaken from time to time, as appropriate, at the discretion of the Secretary.

(f) *Procedure for effecting compliance.* (1) Whenever the Secretary determines that a recipient government has failed to comply with this section, he shall notify the Governor of the State in which such unit is located of the noncompliance and shall request the Governor to secure compliance. If within a reasonable time, not to exceed 60 days, the Governor fails, or refuses to secure compliance, the Secretary is authorized: (i) To refer the matter to the Attorney General of the United States with a recommendation that an appropriate civil action be instituted; (ii) to exercise the powers and functions and the administrative remedies provided by Title VI of the Civil Rights Act of 1964 (42 U.S.C. 2000d); or (iii) to take such other action as may be authorized by law.

(2) No action to effect compliance with this section by any other means authorized by law shall be taken by the Department until:

(i) The Secretary has determined that compliance cannot be secured by voluntary means, and the recipient government has been notified of such determination; and

(ii) The expiration of at least 10 days from the mailing of such notice to the recipient government. During this period of at least 10 days, additional efforts may be made to persuade the recipient government to comply with this regulation and to take such corrective action as may be appropriate.

(3) An order pursuant to Title VI of the Civil Rights Act of 1964 terminating or refusing to grant or continue entitlement payments shall become effective only after the procedures in paragraph (f)(1) of this section have been complied with and:

(i) The Secretary has advised the recipient government of its failure to comply and has determined that compliance cannot be secured by voluntary means;

(ii) There has been an express finding on the record, after such notice prescribed in this section, and after opportunity for hearing, of a failure by the recipient government to comply with a requirement imposed by or under this part;

(iii) The action has been approved by the Secretary; and

(iv) Thirty days have elapsed after the Secretary has filed with the Committee on Ways and Means of the House of Representatives and the Committee on Finance of the Senate a full written report of the circumstances and the grounds for such action; and

(v) The withholding or refusal to pay or continue the payment of entitlement funds shall be limited to the particular recipient government as to whom a finding of noncompliance with this section has been made and shall be limited in its effect to the particular program or activity in which such noncompliance has been so found. Such amount of entitlement funds as are withheld by the Secretary from future entitlement payments pursuant to this paragraph shall be treated as forfeited by the recipient government, and shall be deposited in the general fund of the Treasury. If the Secretary determines that withholding from future entitlement payments is impracticable, he may refer the matter to the Attorney General for appropriate civil action to require repayment of such amount to the United States.

(g) *Delegation.* The Secretary may from time to time assign to officials of the Department, or to officials of other departments or agencies of the Government with the consent of such departments or agencies, responsibilities in connection with the effectuation of the purposes of this section (other than the review of initial decision of the administrative law judge) including the achievement of effective coordination within the executive branch in the implementation of Title VI of the Civil Rights Act of 1964 (42 U.S.C. 2000d).

(h) *Hearing procedure.* Whenever a procedure which requires due notice and opportunity for hearing is involved by the Secretary to effect compliance under this section, the procedural regulations promulgated in Subpart F of this part shall govern.

§ 51.33 Wage rates and labor standards.

(a) *Construction laborers and mechanics.* A recipient government which receives entitlement funds under the Act shall require that all laborers and mechanics employed by contractors or subcontractors in the performance of work on any construction project, 25 percent or more of the costs of which project are paid out of its entitlement funds: (1) Will be paid wages at rates not less than those prevailing on similar construction in the locality as determined by the Secretary of Labor in accordance with the Davis-Bacon Act as amended (40 U.S.C. 276a—276a-7); and, (2) will be covered by labor standards specified by the Secretary of Labor pursuant to 29 CFR Parts 1, 3, 5, and 7.

(b) *Request for wage determination.* In situations where the Davis-Bacon standards are applicable the recipient government must file with the regional office of the U.S. Department of Labor, a Standard Form 308 requesting a wage determination for each intended project at least 30 days before the invitation for bids, and must ascertain that the wage determination issued and the contract clauses required by 29 CFR 5.5 and 29 CFR 5a.3 are incorporated in the contract specifications. The recipient government must also satisfy itself that the successful bidder is made aware of his labor standards responsibilities under the Davis-Bacon Act.

(c) *Government employees.* A recipient government which employs individuals whose wages are paid in whole or in part from entitlement funds must pay wages which are not lower than the prevailing rates of pay for persons employed in similar public occupations by the same employer. However, this subsection shall apply with respect to employees in any category only if 25 percent or more of the wages of all employees of the recipient government in such category are paid from the trust fund established by it under § 51.40(a).

§ 51.34 Restriction on expenditures by Indian tribes and Alaskan native villages.

Indian tribes and Alaskan native villages as defined in § 51.2 are required to expend entitlement funds only for the benefit of members of the tribe or village residing in the county area from which the allocation of entitlement funds was originally made. Expenditures which are so restricted will not constitute a failure to comply with the requirement of § 51.32(a).

Subpart E—Fiscal Procedures and Auditing

§ 51.40 Procedures applicable to the use of funds.

A recipient government which receives entitlement funds under the Act shall:

(a) Establish a trust fund and deposit all entitlement funds received and all interest earned thereon in that trust fund. The trust fund may be established on the books and records as a separate set of accounts, or a separate bank account may be established.

(b) Use, obligate, or appropriate such funds (including any interest earned thereon while in such trust fund) within 24 months from date of the check unless permission is obtained from the Secretary for a longer period within which the funds may be utilized. Permission for an extension of time in which to utilize the funds must be obtained by application to the Secretary. Such application will set forth the facts and circumstances supporting the need for more time and the amount of additional time requested. The Secretary may grant such extensions of time as in his judgment appear necessary or appropriate.

(c) Provide for the expenditure of entitlement funds in accordance with the laws and procedures applicable to the expenditure of its own revenues.

(d) Maintain separate fiscal accounts in such a manner as to:

(1) Permit the reports required by the Secretary to be prepared therefrom,

(2) Permit the tracing of entitlement funds to their final expenditure,

(3) Identify the amounts and sources of nonentitlement funds used for matching Federal grants after January 1, 1972, and the amounts of Federal grants thus obtained, and

(4) To provide a source of documentation sufficient to satisfy a compliance audit performed pursuant to § 51.41.

Such fiscal accounts shall be supported by the use of fiscal, accounting, and internal reporting procedures relative to entitlement funds as are used with respect to expenditures from revenues derived from the recipient government's own sources.

(e) Provide to the Secretary and to the Comptroller General of the United States, on reasonable notice, access to and the right to examine such books, documents, papers or records as the Secretary may reasonably require for the purpose of reviewing compliance with the Act and the regulations of this part or, in the case of the Comptroller General, as the Comptroller General may reasonably require for the purpose of reviewing compliance and operations under the Act.

§ 51.41 Auditing and evaluation; scope of audits.

(a) *In general.* The Secretary shall provide for such auditing and evaluation as may be necessary to insure that expenditures of entitlement funds by recipient governments comply with the requirements of the Act and regulations of this part. Detail audits, reviews and evaluations will be made on a sample basis through inspection of records, and of reports required under subpart B of this part, and through on-site examinations, to determine whether the recipient governments have properly discharged their financial responsibilities and to evaluate compliance with the Act and the regulations of this part.

(b) *Scope of audits.* The scope of such audits will include a review of entitlement fund transactions, accounts and reports. In addition, the scope of such audits will include, at a minimum, an examination of the following areas:

(1) Compliance with assurances made under § 51.10.

(2) Compliance with the requirement that States must maintain transfers to local governments as required by section 107(b) of the Act.

(3) Compliance with the reporting requirements and accuracy of the reports submitted to the Secretary as set forth in Subpart B of this part.

(4) Accuracy of responses to questionnaires of the Bureau of the Census.

(5) Accuracy of the public records required under § 51.13(c).

(c) *Reliance on State and local government audits.* It is the intention of the Secretary to rely to the maximum extent possible on audits of recipient governments by State and local government auditors and independent public accountants. The Secretary will accept such audits when in his judgment this may reasonably be done consistent with the provisions of the Act and regulations of this part, and provided:

(1) Audits are performed in accordance with generally accepted auditing standards. Recipient governments are encouraged to have such audits performed, to the extent practicable, in accordance with standards for the Audit of Governmental Organizations, Programs, Activities and Functions issued by the Comptroller General in June 1972.

(2) Audits include coverage as set forth in paragraph (b) of this section.

(3) Audit workpapers and related audit reports are retained for 3 years after the close of the entitlement period under audit, and are available upon request to the Secretary and the Comptroller General or to their representatives; and

(4) Audit reports shall contain a clear statement of the auditor's findings as to compliance or noncompliance with the requirements of the Act and the regulations of this part. Audit reports which disclose or otherwise indicate a possible failure to comply substantially with any requirements of the Act or the regulations of this part will be submitted to the Secretary by the Governor or chief executive officer.

Subpart F—Proceedings for Reduction in Entitlement, Withholding, or Repayment of Funds

§ 51.50 Scope of subpart.

The regulations of this subpart govern the procedure and practice requirements involving adjudications where the Act requires reasonable notice and opportunity for hearing.

§ 51.51 **Liberal construction.**

The regulations in this subpart shall be liberally construed to secure just, expeditious, and efficient determination of the issues presented. The Rules of Civil Procedure for the District Courts of the United States, where applicable, shall be a guide in any situation not provided for or controlled by this subpart, but shall be liberally construed or relaxed when necessary.

§ 51.52 **Reasonable notice and opportunity for hearing.**

Whenever the Secretary has reason to believe that a recipient government has failed to comply with any section of the Act or of the provisions of this part, and that repayment, withholding, or reduction in the amount of an entitlement of a recipient government is required, he shall give reasonable notice and opportunity of hearing to such government prior to the invocation of any sanction under the Act.

§ 51.53 **Opportunity for compliance.**

Except in proceedings involving willfulness or those in which the public interest requires otherwise, a proceeding under this part will not be instituted until such facts or conduct which may warrant such action have been called to the attention of the chief executive officer of the recipient government in writing and he has been accorded an opportunity to demonstrate or achieve compliance with the requirements of the Act and the regulations of this part. If the recipient government fails to meet the requirements of the Act and regulations within such reasonable time as may be specified by the Secretary, a proceeding shall be initiated. If the recipient government is a unit of local government, a copy of all written communications regarding the alleged violation shall be transmitted by the Secretary to the Governor of the State in which the unit of local government is located.

§ 51.54 **Institution of proceeding.**

A proceeding to require repayment of funds to the Secretary, or to withhold funds from subsequent entitlement payments, or to reduce the entitlement of a recipient government, shall be instituted by the Secretary by a complaint which names the recipient government as the respondent.

§ 51.55 **Contents of complaint.**

(a) *Charges.* A complaint shall give a plain and concise description of the allegations which constitute the basis for the proceeding. A complaint shall be deemed sufficient if it fairly informs the respondent of the charges against it so that it is able to prepare a defense to the charges.

(b) *Demand for answer.* Notification shall be given in the complaint as to the place and time within which the respondent shall file its answer, which time shall be not less than 30 days from the date of service of the complaint. The complaint shall also contain notice that a decision by default will be rendered against the respondent in the event it fails to file its answer as required.

§ 51.56 **Service of complaint and other papers.**

(a) *Complaint.* The complaint or a true copy thereof may be served upon the respondent by first-class mail or by certified mail, return receipt requested; or it may be served in any other manner which has been agreed to by the respondent. Where the service is by certified mail, the return Postal Service receipt duly signed on behalf of the respondent shall be proof of service.

(b) *Service of papers other than complaint.* Any paper other than the complaint may be served upon the respondent or upon its attorney of record by first-class mail. Such mailing shall constitute complete service.

(c) *Filing of papers.* Whenever the filing of a paper is required or permitted in connection with a proceeding under this part, and the place of filing is not specified in this subpart or by rule or order of the administrative law judge, the paper shall be filed with the Director, Office of Revenue Sharing, Treasury Department, Washington, D.C. 20226. All papers shall be filed in duplicate.

(d) *Motions and requests.* Motions and requests may be filed with the designated administrative law judge, except that an application to extend the time for filing an answer shall be filed with the Director, Office of Revenue Sharing, pursuant to § 51.57(a).

§ 51.57 **Answer; referral to administrative law judge.**

(a) *Filing.* The respondent's answer shall be filed in writing within the time specified in the complaint, unless on application the time is extended by the Secretary. The respondent's answer shall be filed in duplicate with the Director, Office of Revenue Sharing.

(b) *Contents.* The answer shall contain a statement of facts which constitute the grounds of defense, and it shall specifically admit or deny each allegation set forth in the complaint, except that the respondent shall not deny a material allegation in the complaint which it knows to be true; nor shall a respondent state that it is without sufficient information to form a belief when in fact it possesses such information. The respondent may also state affirmatively special matters of defense.

(c) *Failure to deny or answer allegation in the complaint.* Every allegation in the complaint which is not denied in the answer shall be deemed to be admitted and may be considered as proved, and no further evidence in respect of such allegation need be adduced at a hearing.

(d) *Failure to file answer.* Failure to file an answer within the time prescribed in the complaint, except as the time for answer is extended under paragraph (a) of this section, shall constitute an admission of the allegations of the complaint and a waiver of hearing, and the administrative law judge shall make his findings and decision by default without a hearing or further procedure.

(e) *Reply to answer.* No reply to the respondent's answer shall be required, and new matter in the answer shall be deemed to be denied, but the Secretary may file a reply in his discretion and shall file one if the administrative law judge so requests.

(f) *Referral to administrative law judge.* Upon receipt of the answer by the Director, or upon filing a reply if one is deemed necessary, or upon failure of the respondent to file an answer within the time prescribed in the complaint or as extended under paragraph (a) of this section, the complaint (and answer, if one is filed) shall be referred to the administrative law judge who shall then proceed to set a time and place for hearing and shall serve notice thereof upon the parties at least 15 days in advance of the hearing date.

§ 51.58 **Supplemental charges.**

If it appears that the respondent in its answer falsely and in bad faith, denies a material allegation of fact in the complaint or states that it has no knowledge sufficient to form a belief, when in fact it does possess such information, or if it appears that the respondent has knowingly introduced false testimony during the proceedings, the Secretary may thereupon file supplemental charges against the respondent. Such supplemental charges may be tried with other charges in the case, provided the respondent is given due notice thereof and is afforded an opportunity to prepare its defense thereto.

§ 51.59 **Proof; variance; amendment of pleadings.**

In the case of a variance between the allegations in a pleading and the evidence adduced in support of the pleading, the administrative law judge may order or authorize amendment of the pleading to conform to the evidence: *Provided,* The party that would otherwise be prejudiced by the amendment is given reasonable opportunity to meet the allegation of the pleading as amended. The administrative law judge shall make findings on any issue presented by the pleadings as so amended.

§ 51.60 **Representation.**

A respondent or proposed respondent may appear in person through its chief executive officer or it may be represented by counsel or other duly authorized representative. The Department shall be represented by the General Counsel of the Treasury.

§ 51.61 **Administrative law judge; powers.**

(a) *Appointment.* An administrative law judge, appointed as provided by section 11 of the Administrative Procedure Act (5 U.S.C. 3105), shall conduct proceedings upon complaints filed under this subpart.

(b) *Powers of administrative law judge.* Among other powers provided by law, the administrative law judge shall have authority, in connection with any proceeding under this subpart, to do the following things:

(1) Administer oaths and affirmations;

(2) Make ruling upon motions and requests.

Prior to the close of the hearing no appeal shall lie from any such ruling except, at the discretion of the administrative law judge, in extraordinary circumstances;

(3) Determine the time and place of hearing and regulate its course and conduct. In determining the place of hearing the administrative law judge may take into consideration the requests and convenience of the respondent or its counsel;

(4) Adopt rules of procedure and modify the same from time to time as occasion requires for the orderly disposition of proceedings;

(5) Rule upon offers of proof, receive relevant evidence, and examine witnesses;

(6) Take or authorize the taking of depositions;

(7) Receive and consider oral or written arguments on facts or law;

(8) Hold or provide for the holding of conferences for the settlement or simplification of the issues by consent of the parties;

(9) Perform such acts and take such measures as are necessary or appropriate to the efficient conduct of any proceeding; and

(10) Make initial findings and decision.

§ 51.62 Hearings.

(a) *In general.* The administrative law judge shall preside at the hearing on a complaint. Testimony of witnesses shall be given under oath or affirmation. The hearing shall be stenographically recorded and transcribed. Hearings will be conducted pursuant to section 7 of the Administrative Procedure Act (5 U.S.C. 556).

(b) *Failure to appear.* If a respondent fails to appear at the hearing, after due notice thereof has been served upon it or upon its counsel of record, it shall be deemed to have waived the right to a hearing and the administrative law judge may make his findings and decision against the respondent by default.

(c) *Waiver of hearing.* A respondent may waive the hearing by informing the administrative law judge, in writing, on or before the date set for hearing, that it desires to waive hearing. In such event the administrative law judge may make his findings and decision based upon the pleadings before him. The decision shall plainly show that the respondent waived hearing.

§ 51.63 Stipulations.

The administrative law judge shall prior to or at the beginning of the hearing require that the parties attempt to arrive at such stipulations as will eliminate the necessity of taking evidence with respect to allegations of facts concerning which there is no substantial dispute. The administrative law judge shall take similar action, where it appears appropriate, throughout the hearing and shall call and conduct any conferences which he deems advisable with a view to the simplification, clarification, and disposition of any of the issues involved.

§ 51.64 Evidence.

(a) *In general.* Any evidences which would be admissible under the rules of evidence governing proceedings in matters not involving trial by jury in the Courts of the United States, shall be admissible and controlling as far as possible: *Provided that,* the administrative law judge may relax such rules in any hearing when in his judgment such relaxation would not impair the rights of either party and would more speedily conclude the hearing, or would better serve the ends of justice. Evidence which is irrelevant, immaterial or unduly repetitious shall be excluded by the administrative law judge.

(b) *Depositions.* The deposition of any witness may be taken pursuant to § 51.65 and the deposition may be admitted.

(c) *Proof of documents.* Official documents, records, and papers of a respondent shall be admissible as evidence without the production of the original provided that such documents, records and papers are evidenced as the original by a copy attested or identified by the chief executive officer of the respondent or the custodian of the document, and contain the seal of the respondent.

(d) *Exhibits.* If any document, record, paper, or other tangible or material thing is introduced in evidence as an exhibit, the administrative law judge may authorize the withdrawal of the exhibit subject to any conditions he deems proper. An original document, paper or record need not be introduced, and a copy duly certified (pursuant to paragraph (b) of this section) shall be deemed sufficient.

(e) *Objections.* Objections to evidence shall be in short form, stating the grounds of objection relied upon, and the record shall not include argument thereon, except as permitted by the administrative law judge. Rulings on such objections shall be a part of the record. No exception to the ruling is necessary to preserve the right of either party to the proceeding.

§ 51.65 Depositions.

(a) *In general.* Depositions for use at a hearing may, with the written approval of the administrative law judge, be taken by either the Secretary or the respondent or their duly authorized representatives. Depositions may be taken upon oral or written interrogatories, upon not less than 15 days written notice to the other party, before any officer duly authorized to administer an oath for general purposes. Such written notice shall state the names of the witnesses and the time and place where the depositions are to be taken. The requirement of 15 days written notice may be waived by the parties in writing, and depositions may then be taken from the persons and at times and places mutually agreed to by the parties.

(b) *Written interrogatories.* When a deposition is taken upon written interrogatories, any cross-examination shall be upon written interrogatories. Copies of such written interrogatories shall be served upon the other party with the notice, and copies of any written cross-interrogatories shall be mailed by first class mail or delivered to the opposing party at least 10 days before the date of taking the depositions, unless the parties mutually agree otherwise. A party upon whose behalf a deposition is taken must file it with the administrative law judge and serve one copy upon the opposing party. Expenses in the reporting of depositions shall be borne by the party at whose instance the deposition is taken.

§ 51.66 Stenographic record; oath of reporter; transcript.

(a) *In general.* A stenographic record shall be made of the testimony and proceedings, including stipulations and admissions of fact in all proceedings, but not arguments of counsel unless otherwise ordered by the administrative law judge. A transcript of the proceedings (and evidence) at the hearing shall be made in all cases.

(b) *Oath of reporter.* The reporter making the stenographic record shall subscribe an oath before the administrative law judge, to be filed in the record of the case, that he (or she) will truly and correctly report the oral testimony and proceedings at such hearing and accurately transcribe the same to the best of his (or her) ability.

(c) *Transcript.* In cases where the hearing is stenographically reported by a Government contract reporter copies of the transcript may be obtained from the reporter at rates not to exceed the maximum rates fixed by contract between the Government and the reporter. Where the hearing is stenographically reported by a regular employee of the Department of the Treasury, a copy thereof will be supplied to the respondent or its counsel at actual cost of duplication. Copies of exhibits introduced at the hearing or at the taking of depositions will be supplied to the parties upon the payment of a reasonable fee (31 U.S.C. 483(a)).

§ 51.67 Proposed findings and conclusions.

Except in cases where a respondent has failed to answer the complaint or has failed to appear at the hearing, or has waived the hearing, the administrative law judge, prior to making his initial decision, shall afford the parties a reasonable opportunity to submit proposed findings and conclusions and supporting reasons therefor.

§ 51.68 Initial decision of the administrative law judge.

As soon as practicable after the conclusion of a hearing and the receipt of any proposed findings and conclusions timely submitted by the parties, but in no event later than 30 days after the submission of proposed findings and conclusions if they are submitted, the administrative law judge shall make his initial decision in the case. The initial decision shall include a statement of the findings of fact and the conclusions therefor, as well as the reasons or basis therefor, upon all the material issues of fact, law or discretion presented on the record, and shall provide for one of the following orders:

(a) An order that the respondent pay over to the Secretary an amount equal to 110 percent of any amount determined to be improperly expended by the respondent in violation of § 51.31 relating to priority expenditures; or

(b) An order that the respondent pay over to the Secretary an amount equal to the amount of entitlement funds determined to be expended in violation of the Act and the provisions of this part; or

(c) An order that the Secretary withhold from subsequent entitlement payments to the respondent an amount equal to the amount of entitlement funds determined to be expended in violation of the Act and the provisions of this part; or

(d) An order that the entitlement of a recipient government be reduced and the amount of such reduction to be withheld from subsequent entitlement payments; or

(e) An order dismissing the proceedings.

§ 51.69 Certification and transmittal of record and decision.

After reaching his initial decision, the administrative law judge shall certify to the complete record before him and shall immediately forward the certified record, together with a certified copy of his initial decision, to the Secretary. The administrative law judge shall serve also a copy of the initial decision by certified mail to the chief executive officer of the respondent or to its attorney of record.

§ 51.70 What constitutes record.

The transcript of testimony, pleadings and exhibits, all papers and requests filed in the proceeding, together with all findings, decisions and orders, shall constitute the exclusive record in the matter.

§ 51.71 Procedure on review of decision of administrative law judge.

(a) *Appeal to the Secretary.* Within 30 days from the date of the initial decision and order of the administrative law judge, the respondent may appeal to the Secretary and file his exceptions to the initial decision and his reasons therefor. The respondent shall transmit a copy of his appeal and reasons therefor to the Director of the Office of Revenue Sharing, who may, within 30 days from receipt of the respondent's appeal, file a reply brief in opposition to the appeal. A copy of the reply brief, if one is filed, shall be transmitted to the respondent or its counsel of record. Upon the filing of an appeal and a reply brief, if any, the Secretary shall make the final agency decision on the record of the administrative law judge submitted to him.

(b) *Appeal by the Director of the Office of Revenue Sharing.* In the absence of an appeal by the respondent, the Director of the Office of Revenue Sharing may, on his own motion, within 45 days after the initial decision, serve on the respondent by certified mail a notice that he will appeal the decision to the Secretary, for review. Within 30 days from such notice, the Director of the Office of Revenue Sharing or his counsel will file with the initial decision his exceptions to the initial decision and his supporting reasons therefor. A copy of the exceptions shall be transmitted to the respondent or its counsel of record, who, within 30 days after receipt thereof, may file a reply brief thereto with the Secretary and submit a copy to the Director of the Office of Revenue Sharing or his counsel. Upon the filing of a reply brief, if any, the Secretary will make the final agency decision on the record of the administrative law judge.

(c) *Absence of appeal.* In the absence of either exceptions by the respondent or a notice of appeal by the Director of the Office of Revenue Sharing within the time set forth in paragraphs (a) and (b) of this section, or a review initiated by the Secretary on his own motion within the time allowed to the Director of the Office of Revenue Sharing, the initial decision of the administrative law judge shall constitute the final decision of the Department.

§ 51.72 Decision of the Secretary.

On appeal from or review of the initial decision of the administrative law judge, the Secretary will make the final agency decision. In making his decision the Secretary will review the record or such portions thereof as may be cited by the parties to permit limiting of the issues. The Secretary may affirm, modify, or revoke the findings and initial decision of the administrative law judge. A copy of the Secretary's decision shall be transmitted immediately to the chief executive officer of the respondent or its counsel of record.

§ 51.73 Effect of order of repayment or withholding of funds.

In case the final order against the respondent is for repayment of funds to the United States, such amount as determined by the order shall be repaid upon request by the Secretary. To the extent that the respondent fails to do so upon request of the Secretary, the Secretary shall withhold from subsequent entitlement payments to the respondent an amount equal to the amount not repaid. In case the final order against the respondent is for the withholding of an amount of subsequent entitlement payments, such amounts as ordered shall be withheld by the Director of the Office of Revenue Sharing after notice to the chief executive officer of the recipient government that if it fails to take corrective action within 60 days after receipt of the notice, further entitlement payments will be withheld until the Secretary is satisfied that appropriate corrective action has been taken and there is full compliance with the Act and regulations of this part. In every case in which the respondent is a unit of local government, a copy of the final order and notice shall be submitted to the Governor of the State in which the respondent is located.

§ 51.74 Publicity of proceedings.

(a) *In general.* A proceeding conducted under this subpart shall be open to the public and to elements of the news media provided that, in the judgment of the administrative law judge, the presence of the media does not detract from the decorum and dignity of the proceeding.

(b) *Availability of record.* The record established in any proceeding conducted under this subpart shall be made available to inspection by the public as provided for and in accordance with regulations of the Department of the Treasury pursuant to 31 CFR Part 1.

(c) *Decisions of the administrative law judge.* The statement of findings and the initial decision of the administrative law judge in any proceedings, whether or not on appeal or review, shall be indexed and maintained by the Director of the Office of Revenue Sharing and made available for inspection by the public at the public documents room of the Department. If practicable, the statement of findings and the decisions of the administrative law judge shall be published periodically by the Department and offered for sale through the Superintendent of Documents.

§ 51.75 Judicial review.

Actions taken under administrative proceedings pursuant to this subpart shall be subject to judicial review pursuant to section 143 of Subtitle C of the Act. If a respondent desires to appeal a decision of the administrative law judge which has become final, or a final order of the Secretary for review of appeal, to the U.S. Court of Appeals, as provided by law, the Secretary, upon prior notification of the filing of the petition for review, shall have prepared in triplicate, a complete transcript of the record of the proceeding, and shall certify to the correctness of the record. The original certificate together with the original record shall then be filed with the Court of Appeals which has jurisdiction.

[FR Doc.73-3355 Filed 2-16-73;2:29 pm]

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

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FOR IMMEDIATE RELEASE February 22, 1973

WITHHOLDING OF APPRAISEMENT OF DEFORMED CONCRETE REINFORCING BARS OF NON-ALLOY STEEL FROM MEXICO

Assistant Secretary of the Treasury Edward L. Morgan announced today the withholding of appraisement of deformed concrete reinforcing bars of non-alloy steel from Mexico pending a determination as to whether they are being sold at less than fair value within the meaning of the Antidumping Act, 1921, as amended. These bars are long, round and solid and are embedded in concrete structures, such as highways, runways, driveways, buildings and patios to increase resistance to tension, compression and other forces.

The decision will appear in the Federal Register of February 23, 1973.

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 six months from the date of publication of the "Withholding of Appraisement Notice" in the Federal Register.

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

During the period of calendar year 1972, imports of deformed concrete reinforcing bars of non-alloy steel from Mexico were valued at approximately $1.7 million.

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

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FOR RELEASE AT 2:00 P.M.

STATEMENT BY THE HONORABLE JOHN M. HENNESSY
ASSISTANT SECRETARY OF THE TREASURY FOR
INTERNATIONAL AFFAIRS, BEFORE THE
SUBCOMMITTEE ON AFRICA AND
THE SUBCOMMITTEE ON INTERNATIONAL ORGANIZATIONS
OF THE HOUSE FOREIGN AFFAIRS COMMITTEE
FEBRUARY 22, 1973, AT 2:00 P.M.

Mr. Chairmen and Members of the Subcommittees:

I am the Assistant Secretary of the Treasury for International Affairs. The Office of Foreign Assets Control which administers the Rhodesian Sanctions Control Regulations is under Treasury jurisdiction. My role in these hearings concerns the impact of these Regulations on commodities being imported from Rhodesia under the Byrd Amendment.

The Treasury's Rhodesian Sanctions Regulations implement Executive Orders 11322 and 11419. These Orders were issued by the President to carry out U.S. obligations in connection with the UN Security Council's Resolutions (232 and 253) calling on all UN members to impose sanctions on Rhodesia.

The Treasury Regulations prohibit, among other things, the importation of all merchandise of Southern Rhodesian

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origin, unless licensed. As you know, the Congress enacted §503 of the Military Procurement Act of 1971 (Public Law 92-156) in the fall of 1971. This section, the "Byrd Amendment" requires the President to allow the importation of strategic and critical materials from non-Communist countries such as Rhodesia, so long as such commodities are not embargoed from Communist countries.

A general license (§530.518 of the Treasury Regulations) was issued by direction of the President on January 24, 1972. Its purpose is to implement the "Byrd Amendment". Thus, it authorizes the importation of chromium ore and concentrates of Southern Rhodesian origin; ferrochrome produced in any country from such chromium ore or concentrates; and any other material of Southern Rhodesian origin determined to be strategic and critical pursuant to the provisions of the Strategic and Critical Materials Stock Piling Act, so long as the importation of such material from any Communist country is not prohibited.

The general license contains two conditions. First, purchases of Rhodesian commodities may not be made at prices in excess of the world market price. The purpose

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of this condition is to preclude illegal transfers of funds in the form of excessive purchase-price payments. The second condition is a requirement for reports to be filed with the Treasury of the details of imports under the general license.

The license permits the importation from Southern Rhodesia of any commodity which has been determined to be "strategic and critical" by the OEP pursuant to the requirements of the Stock Piling Act. The most recent list of "critical and strategic" materials was published by OEP in the Federal Register of February 26, 1972. A copy of this list is attached as Appendix 1.

Any commodity on this list is allowed to be imported freely, since there is no commodity on the list the importation of which is prohibited from Communist countries. For example, there are no existing restrictions in effect on importations of any commodities from the USSR, the Communist countries of Eastern Europe, or the PRC. (Cuba, North Viet Nam and North Korea are subject to total import embargos).

There is no restriction in the general license on the purpose for which a commodity allowed to be imported is to be used. Commodities which have been imported from

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Southern Rhodesia, under the general license, are the following:

asbestos and asbestos fiber

beryllium ore

chrome ore

ferrochrome (high carbon)

ferrochrome (low carbon)

ferrochromium silicon

nickel cathodes

A table is attached as Appendix II, which summarizes each commodity imported under the general license.

The table shows that the total value of all imports of strategic commodities since the enactment by Congress of the Byrd Amendment is $13,047,662. The principal imports were nickel cathodes ($4,439,067); high carbon ferrochrome ($2,977,529); and chrome ore ($2,569,654). Other imports consisted of low carbon ferrochrome, ferrochrome silicon, beryllium ore and asbestos fibers.

OFFICE OF EMERGENCY PREPAREDNESS

LIST OF STRATEGIC AND CRITICAL MATERIALS

Pursuant to section 2(a) of the Strategic and Critical Materials Stock Piling Act, as amended (Public Law 520, 79th Congress), the Director of OEP is authorized and directed to determine from time to time which materials are strategic and critical under the provisions of this Act. Listed below are the materials that have been determined to be strategic and critical under the provisions of this Act.

1. Aluminum.
2. Aluminum Oxide:
a. Aluminum oxide, fused, crude.
b. Aluminum oxide, abrasive grain.
3. Antimony.
4. Asbestos, Amosite.
5. Asbestos, Chrysotile.
6. Bauxite, metal grade, Jamaica type.
7. Bauxite, metal grade, Surinam type.
8. Bauxite, refractory grade.
9. Beryl:
a. Beryl ore.
b. Beryllium copper master alloy.
c. Beryllium metal.
10. Bismuth.
11. Cadmium.
12. Castor oil:
a. Castor oil.
b. Sebacic acid.
13. Chromite, chemical grade.
14. Chromite, metallurgical grade:
a. Chromite, metallurgical grade.
b. Chromium, ferro, high carbon.
c. Chromium, ferro, low carbon.
d. Chromium, ferro, silicon.
15. Chromite, refractory grade.
16. Chromium, metal.
17. Cobalt.
18. Columbium:
a. Columbium concentrates.
b. Columbium carbide powder.
c. Columbium, ferro.
d. Columbium, metal.
19. Copper:
a. Copper oxygen-free high conductivity.
b. Copper, other.
c. Beryllium copper master alloy.
20. Cordage fibers, Abaca.
21. Cordage fibers, Sisal.
22. Diamond dies, small:
a. Smaller than 0.0004 inch.
b. From 0.0004 to 0.00059 inch.
c. From 0.0006 to 0.00079 inch.
23. Diamond, industrial: crushing bort.
24. Diamond, industrial: stones.
25. Feathers and Down:
a. Down.
b. Feathers.
26. Fluorspar, acid grade.
27. Fluorspar, metallurgical grade.
28. Graphite, natural—Ceylon, Amorphous lump.
29. Graphite, natural—Malagasy, crystalline:
a. Graphite, natural—Malagasy, crystalline fines.
b. Graphite, natural—Malagasy, crystalline flakes.
30. Graphite, natural—other than Ceylon and Malagasy crystalline.
31. Iodine.
32. Jewel bearings.
33. Lead.
34. Manganese, battery grade, natural ore.
35. Manganese, battery grade, synthetic dioxide.
36. Manganese ore, chemical grade, type A.
37. Manganese ore, chemical grade, type B.
38. Manganese ore, metallurgical grade:
a. Manganese ore, metallurgical grade.
b. Manganese, Ferro, high carbon.
c. Manganese, Ferro, low carbon.
d. Manganese, Ferro, medium carbon.
e. Manganese Silicon.
f. Manganese metal, Electrolytic.
39. Mercury.
40. Mica, Muscovite block, stained and better.
41. Mica, Muscovite film, first and second qualities.
42. Mica, Muscovite splittings.
43. Mica, Phlogopite block.
44. Mica, Phlogopite splittings.
45. Molybdenum:
a. Molybdenum disulphide.
b. Molybdenum, ferro.
c. Molybdic oxide.
46. Nickel.
47. Opium:
a. Opium gum.
b. Opium, alkaloids and salts.
48. Platinum group metals, Iridium.
49. Platinum group metals, Palladium.
50. Platinum group metals, Platinum.
51. Pyrethrum.
52. Quartz crystals.
53. Quinidine.
54. Quinine.
55. Rubber.
56. Rutile.
57. Sapphire and ruby.
58. Shellac.
59. Silicon carbide, crude.
60. Silver.
61. Sperm Oil.
62. Talc, Steatite block and lump.
63. Tantalum:
a. Tantalum minerals.
b. Tantalum carbide powder.
c. Tantalum metal.
64. Thorium oxide.
65. Tin.
66. Titanium sponge.
67. Tungsten:
a. Tungsten ores and concentrates.
b. Tungsten carbide powder.
c. Tungsten, ferro.
d. Tungsten metal powder, carbon reduced.
e. Tungsten metal powder, hydrogen reduced.
68. Vanadium:
a. Vanadium, ferro.
b. Vanadium pentoxides.
69. Vegetable Tannin extract, Chestnut.
70. Vegetable Tannin extract, Quebracho.
71. Vegetable Tannin extract, Wattle.
72. Zinc.

Dated: February 18 1972.

G. A. LINCOLN,
Director,
Office of Emergency Preparedness.

[FR Doc.72-2911 Filed 2-25-72;8:51 am]

SECURITIES AND EXCHANGE COMMISSION

[812-3058]

E. I. DU PONT DE NEMOURS AND CO.

Notice of Filing of Application for Order Exempting Proposed Transaction

FEBRUARY 18, 1972.

Notice is hereby given that E. I. du Pont de Nemours and Co. (Applicant), a Delaware corporation, has filed an application pursuant to Section 17(b) of the Investment Company Act of 1940 (Act) for an order exempting from the provisions of section 17(a), the proposed grant to Mitsui Fluorochemicals Co., Ltd. (formerly Nitto Fluorochemicals Co., Ltd.) (hereinafter MFC), a Japanese corporation, of exclusive rights in Japan to certain technical information and Japanese patents required for the manufacture and sale by MFC of certain fluorocarbon plastic materials.

All interested persons are referred to the application on file with the Commission for a full statement of the representations contained therein, which are summarized below.

Christiana Securities Co. (Christiana), a registered closed-end investment company, owns approximately 28.4 percent of the outstanding common stock of Applicant, which in turn owns 50 percent of the outstanding common stock of MFC. Under section 2(a)(9) of the Act, Applicant and MFC are presumed to be controlled by Christiana and under section 2(a)(3) of the Act, are also affiliated persons of Christiana.

MFC was organized in April of 1963 pursuant to a 1962 agreement between Applicant and Nitto Fluorochemicals Co., Ltd. (Nitto), whereby each would have a 50 percent interest in MFC. In 1966, Nitto sold its 50 percent interest in MFC to Mitsui Petrochemical Industries, Ltd. and MFC assumed its present name. Under the 1962 agreement between Applicant and Nitto, which became effective upon MFC's formation in 1963, Applicant provided MFC, exclusively in Japan, with certain technical information and an exclusive license to manufacture specified types of fluorocarbon plastic materials including certain polymeric materials (hereinafter 1963 Polymers). In return for the above mentioned information and license, MFC agreed to pay to Applicant a 5 percent royalty on all 1963 Polymers sold by it during a 10 year period scheduled to end June 30, 1975, but which might be extended to no later than June 30, 1979. Applicant represents that because the 1962 agreement was entered into prior to the time of any affiliation between it and MFC, it was not necessary to file an application pursuant to, nor were the transactions described above in violation of, the provisions of section 17 of the Act.

The proposed transaction for which Applicant has requested an exemptive order involves an agreement between Applicant and MFC dated April 21, 1971, whereby Applicant will provide MFC with certain additional technical information required to manufacture high surface area fluorocarbon polymeric materials (HSA Polymers) and will grant to MFC and any sublicensee of MFC an exclusive license in Japan to import, make, use, and sell HSA Polymers. Applicant will reserve to itself and to its customers the right to import, use or sell in Japan any quantity of HSA Polymers made by Applicant, including any article or product made using Applicants' HSA Polymers as an intermediate.

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APPENDIX II

Table of strategic and critical commodities imported from Rhodesia under §530.518 of the Rhodesian Sanctions Regulations between January 24, 1972 and January 12, 1973.

Commodity	Weight	Value
Asbestos	360,000 lbs.	$ 87,900
Beryllium Ore	53,519 lbs.	7,868
Chrome Ore	184,723,992 lbs.	2,822,930
Ferrochrome High Carbon	36,429,610 lbs.	2,990,713
Ferrochrome Low Carbon	7,224,190 lbs.	1,339,165
Ferrochrome Silicon	14,388,493 lbs.	1,634,927
Nickel Cathodes	3,471,143 lbs.	4,412,067
Total	246,650,947 lbs.	$13,295,570

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

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ATTENTION: FINANCIAL EDITOR

FOR RELEASE 6:30 P. M. February 22, 1973

RESULTS OF TREASURY'S MONTHLY BILL OFFERING

The Treasury Department announced that the tenders for $1,800,000,000, or thereabouts, of 349-day Treasury bills to be dated February 28, 1973, and to mature February 12, 1974, which were offered on February 15, 1973, were opened at the Federal Reserve Banks today.

The details of this issue are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:

High	- 94.203	Approx. equiv. annual rate 5.980% per annum
Low	- 94.107	Approx. equiv. annual rate 6.079% per annum
Average	- 94.134	Approx. equiv. annual rate 6.051% per annum 1/

(19 % of the amount bid for at the low price was accepted)

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

Federal Reserve District	Total Applied for	Total Accepted
Boston	$ 62,385,000	$ 31,385,000
New York	2,530,485,000	1,428,430,000
Philadelphia	10,880,000	880,000
Cleveland	63,075,000	48,075,000
Richmond	35,225,000	18,225,000
Atlanta	4,410,000	4,410,000
Chicago	332,505,000	207,005,000
St. Louis	25,780,000	18,780,000
Minneapolis	6,355,000	355,000
Kansas City	24,505,000	18,405,000
Dallas	29,590,000	6,590,000
San Francisco	129,225,000	18,225,000
TOTALS	$3,254,420,000	$1,800,765,000 2/

1/ This is on a bank discount basis. The equivalent coupon issue yield is 6.42%.

2/ Includes $27,765,000 entered on a noncompetitive basis and accepted in full at the average price shown above.

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PRESS CONFERENCE

WITH

THE HONORABLE PAUL VOLCKER

UNDERSECRETARY OF THE TREASURY

AND

MEMBERS OF THE PRESS

- - -

United States Mission
United Nations
N.Y. City
(Devaluation)

New York City, New York

Friday, February 16, 1973

- - -

MODERATOR: Ladies and gentlemen, I'd like to welcome you this morning. I want to pay particular thanks to Mr. Bill Stricker of the Foreign Press Center, who has been so kind in making the arrangements,and to that extent I would like to extend a special welcome to the foreign members of the Press Corps that are here this morning, and a special invitation for your questions.

At this point I would like to introduce Undersecretary Paul Volcker, who has added a few more miles to a 31,000-odd mile visit in a very short period of time, and you're all familiar with that, I'm sure. At this point, he has indicated he would like to make a few opening, informal remarks, and then we can go directly to questions. We are, obviously, on the record.

Mr. Volcker.

SECRETARY VOLCKER: I have nothing extensive to say at the start, other than to say that I am glad to be here with you and expose myself to your questions.

I think I would just say that, out of the turmoil in markets in recent weeks, I think we have a constructive result that is directed toward the needs of the situation; directed toward, of course, the immediate exchange market situation but directed toward the underlying problem of the disequilibrium that has persisted in our payments, the disequilibrium in payments of some other important countries.

We've taken an action that certainly doesn't answer all of the problems of the situation, but I think does give a positive thrust -- an important positive thrust -- to adjusting our payment situation and restoring a better equilibrium in the world economy, and provides, I think, a better springboard and atmosphere for both international monetary negotiations and the international trade negotiations, which can go on and we hope, of course, build the structure of world trade and payments consistent with the interests of the world economy, not just the United States economy, in a free and open trading and monetary order. That's what the game is all about in a sense. I think the actions we took recently helped push us towards that goal.

I think that's all I have to say initially, so why don't you go ahead with any questions you have.

QUESTION: Secretary Shultz said yesterday that the United States was seeking a further depreciation of the dollar, not by a new devaluation, but in the further play of currency exchange. Does this mean that you do not think that those two devaluations, 8 1/2 percent in December 1971 and 10 percent now will be enough, will be sufficient to reduce the balance of payments and balance of trade deficits?

SECRETARY VOLCKER: I must say, I didn't understand that story as I read it in the paper this morning, and I was not there during that conversation. But let me just say, this action we took, combined with the earlier Smithsonian adjustments, we are satisfied provide in the exchange rate area a very reasonable basis for looking toward a restoration of equilibrium, which is going to take some time. It is going to depend upon our domestic performance; it's going to depend upon other factors in the situation.

But so far as exchange rates are concerned, I want to express full satisfaction with what has been accomplished. Now, I suspect what may have lain behind some of what seemed to me a somewhat confused story, was the evident fact that a number of currencies are floating so we don't have a fixed exchange rate that we can appraise precisely. Some of those may float a little further in one direction or another, and in some cases there could be some further appreciation, but so far as the basic structure is concerned, the basic action that we took, we thought it was what the situation called for.

I must say, in that connection, I seem to read as many comments that the dollar is undervalued as overvalued, and perhaps that's the way it should be.

QUESTION: Do you see a return to a positive payments balance in 1973?

SECRETARY VOLCKER: No. I think we cannot expect that kind of quick response in the trade position to this kind of action, and in terms of our trade position, in terms of our basic balance, I think we have to anticipate we're going to be in deficit for some period ahead. We are starting from a deficit position in trade of between six and one half and seven billion dollars. We had a basic deficit last year in the neighborhood of ten or eleven billion dollars.

You're not going to correct that in a twelve month period, and if there's anything we've learned, it's that exchange rate changes, and indeed, most actions that you can take, can only work their way through the system and restore the flows in a balanced way over a period of time, and that period of time seems terribly long as you wait for it to happen.

I think it's popular to look at it in a two year perspective just in terms of exchange rate changes. I think to have the full effects flow through, it's going to take longer than two years.

QUESTION: Do you favor floats or the stopping of further floats and do you see within the next month an international monetary meeting and will you sponsor it, such as the Smithsonian?

SECRETARY VOLCKER: Such as the Smithsonian, no. There will be meetings, there have been meetings on a more or less continuing basis, particularly in the framework of the Committee of Twenty, and there will be meetings both at the Deputies' level and the Ministerial level of that group, which had been scheduled in general terms for some time, in the months ahead. There's no question about it.

This is aimed primarily at the longer-term reform effort, and in that effort of course we have to discuss the kind of question that you raised initially as to what the role is for fixed rates, what the band should be about them, what room there should be for floating of currencies, either temporarily or more indefinitely. These are all on the agenda for those meetings.

QUESTION: The Shultz story inferred that we wanted countries to get off the floats and get back into parities, is that correct?

SECRETARY VOLCKER: No, I don't think that would be a correct reading.

I think we've just negotiated an exchange rate realignment, an exchange rate change here, and you have to separate that short-term -- shorter-term, anyway, kind of operational question from the longer-term questions of the system. Now, they're not unrelated, and in taking the kind of action that we took, certainly in our own thinking and I think in the thinking of some other countries, but certainly prominently in our own thinking, was this: was the kind of action that we were taking helping or hurting in pushing us toward constructive reform on a more permanent basis of the system.

Our conclusion was that this kind of action, most importantly, because it helps to push us toward equilibrium, is helping to lay the basis, helping to reinforce the thrust of constructive reform in the international monetary system.

Now a number of issues arise there which are going to have to receive very careful discussion over coming months, but we have urged one particular approach toward monetary reform that implies some symmetry, even-handedness of treatment of different countries, different responsibilities for action in different circumstances. In the broadest terms, the kind of action we took, the kind of action the Japanese are taking, seems to me consistent with the general thrust of what we have been saying for the longer term, but a number of important issues obviously arise there that are going to have to be discussed very intensively in the coming period.

QUESTION: There are two villains in the international field recently, one too restrictive and one too free-wheeling, one Japan and one multinational corporations. You won a great victory on behalf of the Western world as far as Japan is concerned. What does the Treasury intend to do to curtail the free-wheeling of the multinationals?

SECRETARY VOLCKER: Let me say that the characteristic, I would like to think, of this solution over the past weekend is that there were no victors and no defeated; that this was a solution which seemed to best meet the needs of all the parties concerned and it involved very hard decisions by most of those parties. But against the situation that existed, against the needs of the situation, there was a willingness to take these decisions because they did fit everybody's needs, I think, best.

Now, one of the problems of the international monetary system, quite clearly, has been that there is -- you put it in terms of multinational companies, let me put it in terms of the amount of capital that is free to flow around in liquid form or otherwise. This creates certain potentials for strain, certain instability in the system.

I think this is without question one of the problems toward which monetary reform must address itself, and I think it's apparent that there are no easy answers, or we would have come to them much earlier. I suspect what we can get is only-- I shouldn't say only -- we will get a series of partial answers which in combination, I would be very hopeful, could deal with the problem adequately.

Some of the partial answers have to be, I think, in terms of a degree of flexibility in exchange rates, in terms, let's say, of wider bands around a fixed rate if we're going to have a parity type system. Certainly part of the answer has to be in maintaining a better equilibrium in general so that the incentives for money to move are not so clear and apparent.

There is discussion of, in some circumstances, whether floating of one currency or another either for a temporary or longer period, as I suggested, isn't a useful technique. Certainly some countries have found that to be the case, and that is a technique which helps to some degree to deal with this problem, but there is no question that this whole question of international capital flows is a serious one.

In a sense we are having to deal with one of the successes of the past. Much of the thrust of international monetary developments has been to free capital movements, and that's a good thing, and to enlarge international capital movements, and I think basically that's a good thing, but we're now learning, having achieved the positive success, that it brings some real problems in its wake.

QUESTION: I gathered from Secretary Shultz's press conference on Monday night that the operations of the Federal Reserve in support of the dollar have been temporarily suspended. Is it intended this suspension will be permanent? Does the United States in the exchange markets intend to take a totally passive attitude toward the external value of the dollar?

SECRETARY VOLCKER: Well, I think what he said was, we are under no obligation to intervene in exchange markets, and basically that is the same posture that we have been in.

QUESTION: Treasury is said to be considering a selective surcharge on particular imports from certain countries. Is this true?

SECRETARY VOLCKER: Well, I would, I think, answer that question by noting that in our monetary reform proposals -- the speech that Secretary Shultz made at the IMF -- he referred to perhaps one aspect of your question when, in his discussion of the adjustment process, he could contemplate really two types of situations, one where a country might find itself in persistent deficit and might at some point feel it necessary to use direct measures to assist its balance of payments, in which case a surcharge might be more desirable than some other methods, or if it found itself in surplus it might want to take some special measures to liberalize.

The question also arises in the framework of that kind of a system and one country or another is persistently out of line with respect to the rest of the international community, whether the rest of the community shouldn't be empowered to take some action, which might be by way of a surcharge, to deal with that situation. That kind of thinking is well incorporated in our earlier proposals on monetary reform.

Now, there are other questions that arise here: the whole question of safeguards, which has been, I would point out, not of unique concern to the United States. There are many countries that operate a safeguard system where it's a question of sometimes, in some situations, an industry being faced with very rapid change, and can there be some device, some approach under certain criteria, perhaps agreed internationally, where action can be taken to in effect slow down the pace of change.

QUESTION: You said something in the beginning that leads me to think you don't believe the balance of payments can be altered by revaluation or devaluation alone, and you have said you still have a U.S. line in mind. What do you consider the next most urgent step and by whom?

SECRETARY VOLCKER: Well, I think there are two broad areas that are relevant in that question. I think there is always the question of domestic policy here and abroad and I don't want to lose sight of that. The whole effort, the whole stability of the international monetary system certainly rests in the last analysis on the stability of domestic economies, and that's true in our case as well as in the case of others, so that's one large dimension that we can never really afford to forget. I suppose it gets out into the dimension of American business, which in the end has to take advantage of the export opportunities that a change in currency values produces, and maybe some of them have had their attention diverted elsewhere into international investment or into the domestic market. Well, they ought to have some incentive to look to foreign markets as well.

That's one side of it. The other side, I think, is basically the trading framework, and it's quite true that exchange rate changes don't do you much good in some areas if markets are shut to you by restrictions . There have been cases around the world, as we look out from the United States, where this has been true in some important areas . It's important that we not only be competitive in price but that the competitiveness in price be able to show through in markets by opening markets to us.

There have been some areas, such as in agricultural markets, where we've been highly competitive in the past, but it hasn't been easy to export because the markets are protected and there could be other examples.

QUESTION: I am confused by the article in the New York Times this morning. My question is, does your country favor floating rates for the French franc and for the German mark and did you try to persuade, in your recent talks in Paris and Bonn, the finance ministers of the two countries to float their currencies?

SECRETARY VOLCKER: We did not try to persuade them to float their currencies.

QUESTION: No place in the Secretary's statement was the word gold used. Officially what we are trying to do is to change the [inaudible] into special drawing rates, which is proper. But Special Drawing Rights are expressed in terms of grams of gold.

SECRETARY VOLCKER: That's right.

QUESTION: In those terms, the actual revaluation of the monetary price of gold amounts to 11.1 percent rather than a 10 percent devaluation of the dollar.

SECRETARY VOLCKER: If you measure it in terms of the increase in the dollar price of gold it's 11.1. That's right.

It's expressed as the decrease in the gold value of the dollar, it is 10 percent. I think gold was mentioned in the statement because -- I don't remember the exact words that we used -- he wanted to make clear that, in effect, don't mistake our action in changing relative exchange rates here as in any way favoring restoration of the role of gold in the system. To the contrary, we look forward to a monetary system in which gold is playing a reduced role rather than a more important role, and that continues to be our very strong view.

QUESTION: I only thought it was paradoxical that the only way out of the recent crisis was to use the gold and SDR (inaudible)

SECRETARY VOLCKER: Well, in a formal sense, gold is the unit of account in the system and the Fund articles at present, along with SDR's.

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QUESTION: Am I right to understand that the United States wants to see the margin between yen and dollar to be widened as much as to 20 percent?

SECRETARY VOLCKER: Well, I'm not going to comment on any specifics in those terms. The yen is floating now, and we'll see what happens.

QUESTION: Mr. Undersecretary, the New York Times this morning said that -- quoted Mr. Shultz as saying that you were bringing pressure on the various countries floating their currencies.

Can you comment on that, as to which countries might be concerned and so on?

SECRETARY VOLCKER: I don't think we're bringing pressure on any countries. We have engaged in discussions over the past week-end, with agreed results, one of which is that the yen is floating. We contemplate the pound sterling is going to be floating for a while, and the Italian lira is floating.

Now, that was all understood as part of our own decision.

QUESTION: Looking to the trade field, will the United States accept all the provisions of GATT, or take exceptions to some or renegotiate provisions of GATT?

SECRETARY VOLCKER: Well, we're looking at a fundamental reform, I think, of the world economic system, in a way, the monetary system and the trading system, and we would not enter those discussions, I think, with the feeling that the existing roles of GATT could not be touched; that indeed, part of these negotiations and discussions may well indicate that some changes in GATT rules are desirable and needed. And I think we would enter the discussions with that feeling.

QUESTION: Could you be specific, which ones you have in mind?

SECRETARY VOLCKER: Well, I'll just take one example, which I don't think is necessarily the most important example. GATT now says that in certain balance of payments circumstances you can take restrictive trade action of a certain type, literally through quotas or quantitative restrictions of one sort of another. It would be our inclination to think, and I think a number of countries share this view both by their statements and their actions, that when such action is taken, it is probably better to take it though a kind of generalized surcharge or generalized special tariff, rather than a quantitative restriction.

Now, that is one specific example of the way in which GATT rules might be changed. Now, there are other questions that arise here, certain areas of GATT that one party interprets one way and another party interprets another way, would certainly need review and new clarity and consensus.

QUESTION: One question is, can we have stability in

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the world before there is stable parity of the dollar and other currencies.

And the other question is, if we are going to institute the plan the President has suggested of introducing tariffs and quotas where necessary to improve our trade, will not other countries who may be affected adversly thereby raise a rumpus, as you might say, upset the cart?

SECRETARY VOLCKER: Well, the best way to deal with these problems, as I said right at the start, is in the framework of an open world economy. And that is the basic thrust of what we would like to see. Now, the problems are going to have to be dealt with, and if one can't deal with them in the context of an open economy, and moving toward freer trade, inevitably, one is thrown back on other instruments that are less satisfactory in their nature.

QUESTION: But tariff supporters are against trade.

SECRETARY VOLCKER: I agree. And basically in these negotiations, we want to liberalize, we want to negotiate tariffs down, and other barriers down.

Now, of course, the negotiation implies agreement by trading partners on that course. That is one way the world economy can go and it should go. But, where there are barriers against us, where there are unfair practices, we have to be equipped to deal with those. If we can't deal with them in a liberalizing direction, we will have to protect our own position.

But, I think the general objective here is clear enough. And then there are other areas of potential problems. We referred to this "safeguard area" where, again, it is nothing new for many countries which have such safeguard systems in force. The question is whether the United States has adequate powers in that respect, and how that can be fit into an agreed international system. And that's a matter for intensive negotiation.

QUESTION: The stock market has reacted rather violently the last couple of days in response to this devaluation, as a result of loss of confidence.

Do you see this confidence being restored by anything you have to say?

SECRETARY VOLCKER: I don't know what the stock market is reacting to entirely. I think there are probably a number of domestic considerations that seem to have been playing a role in this area. I must say that I think there has been some misinterpretation of both the intentions and the reality with respect to Phase III that has disturbed some people. I know there are varying forecasts of both the general business outlook and the inflation outlook. I see some alarming statements that I don't think are justified by the basic trend of affairs. I think we have a very tight budget situation in terms of spending, and I doubt that this has been fully appreciated, the intensity of the spending restraint that has been applied. It seems to me that the budgetary posture is roughly appropriate to the current stage of the business cycle, if the President can go ahead and carry through his intentions as he means to do. And I think the omens there are basically good.

I recognize that there has been some questioning of -- a certain degree of uncertainty about some of these things. We go through these phases, and we seem to be in a little phase of uncertainty now which we'll wait and get through it, I'm sure, and proceed.

QUESTION: Secretary Volcker, in talking about the movement of capital, you did not mention the problem of the dollar overhang.

What is the position of the United States Government at this time on this problem of the increased amount of dollars available internationally?

SECRETARY VOLCKER: Well, I think the most fundamental thing I can say about that problem is that this is why it is so important to achieve the overall adjustment in our balance of payments position, because the only way to really deal with that overhang effectively is to stop adding to it and begin subtracting from it through a stronger American balance of payments position.

There is no adequate answer in the absence of that fundamental. Now, there may be some residual problem in dealing with this. How it gets dealt with, I think, and whether it needs to be dealt with in a very specific way depends very much on the shape of the rest of the monetary system that is agreed upon. So, I think it is really premature to try to answer that question without knowing the full context of the system.

QUESTION: So you are not in favor of intermediate steps taken in that area?

SECRETARY VOLCKER: I don't see any need for dramatic immediate steps.

QUESTION: Is it true rather that there is no real overhang of the dollar, because the world trade is now $450 billion projected for this year, and always the idea was for an arrangement that you need world liquidity which would be four months, and we now have four months -- $150 billion is the total of world liquidity approximately in the last 10 days.

SECRETARY VOLCKER: I think whether this is a problem or not depends partly on that kind of appraisal, and I would certainly agree that world reserves have to be looked at in the context of the enormous growth in the world economy. But whether people worry about that overhang or not, so-called, depends upon how strong the dollar is. And again, the first priority is to make the dollar strong. Nothing is going to work very well if the dollar is not in a strong position.

And the actions, again, that we have taken this week-end were designed to make a very important assist in that direction.

QUESTION: What we need to worry about, isn't it confidence or lack of it. Now, most initiatives the U.S. has taken were Executive actions, and what Europeans have trouble understanding, it seems to me, is that there is a difference between parliamentary government and the kind of present proposals --

SECRETARY VOLCKER: I agree the people have difficulty in recognizing that.

QUESTION: What you talked about --

SECRETARY VOLCKER: May we just finish here, please.

QUESTION: Do you want to address yourself to the question whether Congress seems prepared, ready and informed enough to inspire confidence abroad?

SECRETARY VOLCKER: Well, I think we are taking actions to -- and carrying out now consultations with various groups in the American economy and with Congress itself -- that are aimed at producing a result that will be constructive in terms of the United States and in terms of the world.

Now, I think we are better off this week than last week in that respect, frankly. But, we're going to have long discussions in the Congress, and we certainly want to devote every effort to make sure that there is a constructive result which includes, I think inevitably, taking care of some of their very deeply felt concerns.

QUESTION: How close are we to a universal system of floating rates such as Mr. Reuss seems to be interested in?

SECRETARY VOLCKER: Well, I never quite know what a universal system of floating rates is. If you have a vision of all one hundred and -- whatever it is now -- twenty-four countries in the world floating their currencies, I don't think that's a vision that has much practical import. We're not going to have that kind of a system.

If you think of a system in which there is a good deal more flexibility of exchange rates, I think we will have more flexibility. How many countries are actually floating is going to be a -- there are quite a few now, obviously. Just how this comes out is going to have to be one of the centers of discussion of the longer-term monetary reform, and I don't think I want to pre-judge that issue.

QUESTION: Following that very question now, we have talked about equilibrium and you have mentioned the floating of the yen was a right step in the right direction. Now, dollar being the most important currency, what stands in the way of dollar also floating for the time being, and thereby bringing about a general balance. Is there a specific reason why dollar shouldn't be floated?

SECRETARY VOLCKER: Well, you see, every exchange rate is two-sided, and when another country fixes its exchange

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rate against the dollar, it's not possible for us to float, because that's our exchange rate, too. So you get a mixture. I suppose one could say the yen is floating, but the dollar is also floating with respect to the yen, because it is two-sided. But, if the franc is fixed and the mark is fixed and the guilder is fixed, the dollar is fixed against those currencies because the dollar is the currency against which they fix.

We have certainly learned in the period after August 15th that whether the dollar floats or not is not a decision for the United States.

MODERATOR: One more question?

QUESTION: You said earlier that it would take at least two years, probably longer to get the U.S. balance of trade back into equilibrium. Does that allow for the possibility that it might get worse as suggested yesterday by the U.S.-Japan Trade group?

SECRETARY VOLCKER: Yes. One of the difficulties in this kind of action which can go back and raise some of these uncertainty problems is that an exchange rate action almost inevitably has a perverse impact in the short run. It is going to make your imports more costly particularly, and the trading pattern in the short run is set. So, I think one of the costs of this kind of action is that you may go backwards before you go forewards.

I don't think there is any doubt that this kind of action over a period of time provides substantial thrust toward equilibrium. But in the very short run, it could have precisely the opposite effects.

Now, our own analysis suggests that this action was taken at a time when the American trade balance should have been improving anyway. The question was not, in our minds, so much whether the trade balance was going to improve. The question was whether it was going to improve enough without additional thrust, and this action is designed over a period of time, looking through the immediate impact, to help produce enough improvement to restore the equilibrium that we need, and that I think other countries recognize is basically necessary in terms of a really stable system in the future.

QUESTION: Do you want to improve your balance of payments rather than balance of trade?

SECRETARY VOLCKER: Well, I think what you want in the end is equilibrium in the overall balance of payments. But to achieve that we're going to need a considerable improvement in our trade position. We need the improvement in the trade position to achieve the overall equilibrium that we want.

Thank you.

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

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FOR IMMEDIATE RELEASE February 23, 1973

TREASURY ANNOUNCES ACTIONS ON FOUR INVESTIGATIONS UNDER THE ANTIDUMPING ACT

Assistant Secretary of the Treasury Edward L. Morgan announced today actions on four investigations under the Antidumping Act, 1921, as amended.

Three cases involve initiations of antidumping investigations, and in the fourth case there is a final revocation of dumping. These decisions will appear in the Federal Register of February 26, 1973.

In the first case, Mr. Morgan announced the initiation of an antidumping investigation on imports of manually operated single-end type metal punching machines from Japan. These machines are used to punch out round and shaped holes in metal of various thicknesses. This announcement follows a summary investigation conducted by the Bureau of Customs after receipt of a complaint alleging that dumping was taking place in the United States. During calendar year 1972 imports of these metal punching machines from Japan were valued at approximately $100,000.

In the second case, Treasury announced the initiation of an antidumping investigation on imports of expanded metal of base metal from Japan. This expanded metal is used primarily as flooring and platforms for pedestrian traffic. This announcement follows a summary investigation conducted by the Bureau of Customs after receipt of a complaint alleging that dumping was taking place in the United States. During the period of January 1971 through September 1972 imports of expanded metal of base metal from Japan were valued at approximately $1.3 million.

In the third case, Assistant Secretary Morgan announced the initiation of an antidumping investigation on imports of natural rubber thread from Italy. This thread is chiefly used to manufacture elastic fabrics for wearing apparel. This announcement follows a summary investigation conducted by the Bureau of Customs after receipt of a complaint alleging that dumping was taking place in the United States. During the period of January through October 1972 imports of natural rubber thread from Italy were valued at approximately $314,000.

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In the fourth case, the Department announced a final revocation of dumping with respect to chromic acid from Australia. This acid is a commercial inorganic chemical with several industrial uses, the most important being that of chromium plating. The original finding was issued on March 21, 1964. Since that time there have been no importations of chromic acid from Australia. In addition, the producer of the acid has given assurances to the Treasury Department that future sales to the United States will not be at less than fair value prices. An intent to revoke the finding of dumping was published on November 22, 1972. Interested persons were provided an opportunity to present their views on the decision before Treasury took its final action.

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

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FOR RELEASE UPON DELIVERY

STATEMENT OF THE HONORABLE WILLIAM E. SIMON
DEPUTY SECRETARY OF THE TREASURY
BEFORE THE
HOUSE GOVERNMENT OPERATIONS COMMITTEE
SUBCOMMITTEE ON LEGISLATION AND MILITARY OPERATIONS
FEBRUARY 26, 1973 AT 10:00 A.M.

Mr. Chairman and members of the Committee.

My name is William E. Simon, Deputy Secretary of the Treasury. This morning, I would like to explain to you how the Treasury Department and I will carry out the duties assigned to us under the President's Reorganization Plan No. 1. Under Reorganization Plan No. 1, the President proposed the abolition of the Office of Emergency Preparedness (OEP). As such, a new Chairman of the Oil Policy Committee is needed to replace the Director of OEP. Accordingly, the President stated that he would designate the Deputy Secretary of the Treasury as Chairman in place of the Director of OEP.

Since the Oil Policy Committee is not a statutory body, the transfer of the Chairmanship to the Deputy Secretary of the Treasury Department need not await Reorganization Plan No. 1 becoming effective. Therefore, the President on February 7, 1973, approved Executive Order 11703 which assigned the policy development direction functions on this program to the Deputy Secretary of the Treasury.

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As the President indicated in his message to the Congress on January 26, the Oil Policy Committee will continue to function as in the past. The specific functions and responsibilities being assumed by the Deputy Secretary of the Treasury as Chairman of the Oil Policy Committee are as follows:

1. To provide the policy direction, coordination and surveillance of the oil import program with the advice of the Oil Policy Committee. As such, he must maintain constant surveillance of imports of petroleum and its primary derivatives in respect to the national security.

2. After consultation with the Secretaries of State, Defense, Treasury, Interior, Commerce and Labor, the Chairman is to inform the President of any circumstances which, in his opinion, might indicate the need for further Presidential action to adjust imports.

3. In the event of price increases of crude oil or its products or derivatives during the existence of the oil import program, the surveillance of the program is to include a determination by the Chairman as to whether the price increases are necessary to accomplish the national security objectives of the oil import program and of the statutory authority on which it is based.

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In addition, the Oil Policy Committee is charged with reviewing Congressional hearings on the oil import program and any recommended changes in it, including both interim and long-term adjustments that will increase the effectiveness and enhance the equity of the program.

I think it is important to briefly mention the relationship of the Oil Policy Committee to the Department of the Interior with respect to the oil import program. The Chairman of the Oil Policy Committee will set policy direction and assume the coordination role within the government. Implementation of the program will remain within Interior. However, in order to assure effective coordination, it is anticipated that the Director of Interior's Office of Oil and Gas will serve as Executive Secretary of the Oil Policy Committee. This type of coordination has been designed to facilitate immediate implementation of policy decisions and to improve the process of long-range planning necessary to provide adequate fuel supplies. Thus, the policy and implementation functions will be more closely aligned in order to strengthen the government's performance in this area.

We want to be responsive to the needs of the American public. We must be able not only to respond quickly to problem areas, but also to anticipate problems.

We are looking for good ideas. Only last Thursday at a hearing before a subcommittee of the Senate Government Operations Committee, Senator Abraham Ribicoff suggested something to me which I thought was a very good idea. He suggested that we set up a special group to deal with the energy supply problems of the Northeastern States. I think this is a good idea and I intend to implement it; but I also plan to carry it further and to establish such a subcommittee not only for the Northeast, but for all of the major regions of the nation.

One answer to the problem raised by Senator Ribicoff and his constituents is to provide adequate refinery capacity in the Northeastern area. The environmental considerations are important, but we are going to have to find a solution that satisfies both our need for energy and environmental protection. The only real solution to the existing domestic shortages are:

1) Encourage domestic exploration and production,
2) Provide stability in planning for our domestic industry by longer range planning and implementation and cease the stop-and-go tactics, and thus
3) Give the necessary incentive for increased refinery construction and expansion.

Because the Oil Policy Committee is an inter-agency

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group, it provides a forum where the differing views and interests of the several agencies can be coordinated.

I believe that we are in a good position to insure an even-handed consideration of all the issues and all of the points of view.

As Chairman, I advise the President through Secretary George P. Shultz, who also serves as Assistant to the President. In this way I am able to assure that the work of the Oil Policy Committee and my own work are coordinated with the White House, that the views expressed at the Oil Policy Committee are effectively presented to the highest level, and that the Oil Policy Committee will play a central role in the development of our overall energy policy.

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ATTENTION: FINANCIAL EDITOR

FOR RELEASE 6:30 P.M. February 26, 1973

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced that the tenders for two series of Treasury bills, one series to be an additional issue of the bills dated May 31, 1972, and the other series to be dated March 1, 1973, which were invited on February 20, 1973, 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 31, 1973		182-day Treasury bills maturing August 30, 1973	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv. Annual Rate
High	98.545 a/	5.756%	96.970 b/	5.993%
Low	98.522	5.847%	96.927	6.078%
Average	98.531	5.811% 1/	96.944	6.045% 1/

a/ Excepting 1 tender of $695,000; b/ Excepting 2 tenders totaling $1,510,000

20% of the amount of 91-day bills bid for at the low price was accepted
63% of the amount of 182-day bills bid for at the low price was accepted

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	Applied For	Accepted
Boston	$ 28,625,000	$ 12,625,000	$ 44,160,000	$ 20,160,000
New York	2,907,705,000	2,085,205,000	2,589,080,000	1,570,980,000
Philadelphia	40,635,000	26,635,000	7,390,000	7,390,000
Cleveland	26,815,000	26,815,000	13,875,000	8,875,000
Richmond	17,900,000	11,900,000	16,070,000	10,070,000
Atlanta	18,185,000	17,385,000	11,865,000	11,865,000
Chicago	189,525,000	88,525,000	197,590,000	96,480,000
St. Louis	42,270,000	29,270,000	30,805,000	18,805,000
Minneapolis	28,765,000	18,405,000	27,745,000	15,545,000
Kansas City	42,450,000	33,100,000	21,265,000	16,115,000
Dallas	38,760,000	13,960,000	31,125,000	7,125,000
San Francisco	89,200,000	36,400,000	95,635,000	16,635,000
TOTALS	$ 3,470,835,000	$2,400,225,000 c/	$3,086,605,000	$1,800,045,000 d/

c/ Includes $182,655,000 noncompetitive tenders accepted at the average price of 98.531
d/ Includes $ 92,265,000 noncompetitive tenders accepted at the average price of 96.944
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 5.98 % for the 91-day bills, and 6.32% for the 182-day bills.

Department of the TREASURY
SHINGTON, D.C. 20220 TELEPHONE W04-2041
NEWS
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FOR RELEASE ON DELIVERY

STATEMENT BY THE HONORABLE PAUL A. VOLCKER
UNDER SECRETARY OF THE TREASURY FOR MONETARY AFFAIRS
BEFORE THE
SENATE BANKING, HOUSING AND URBAN AFFAIRS COMMITTEE
TUESDAY, FEBRUARY 27, 1973, AT 10:00 A.M. (EST)

Mr. Chairman and Members of the Committee:

Two weeks ago, after intensive consultation and negotiation, we took action to achieve a needed realignment of international currency values. A key to this result was the announcement of our intention to propose to the Congress legislation to devalue the dollar. The Bill before you, S.929, would authorize a 10-percent reduction in the par value of the dollar to accomplish that change.

The realignment offers a highly constructive opportunity, both for the United States and for the world community. Augmenting the Smithsonian realignment agreed earlier, it attacks directly and effectively the major imbalances that have plagued world payments for too long, and undermined monetary stability. I am convinced the size of the adjustments is fully commensurate with the need. As part of this process, competitive opportunities in world markets for American workers, farmers and businessmen have been substantially improved. By helping reestablish a more sustainable equilibrium in the world economy, the exchange rate actions also provide a stronger foundation for building a reformed international monetary and trading system.

Before discussing the realignment in more detail, I want to recognize and emphasize a part of the larger setting in which these actions must be placed. The substantial exchange rate changes involving the dollar over the past 18 months deal with imbalances that had been permitted to build up over a long period of time, stretching back for nearly two decades. Inevitably, the corrective process, however essential, has been painful and temporarily unsettling. It is not a process to repeat.

As we look ahead, the strength of the dollar internationally -- indeed the stability of the monetary system, itself -- must rest on the strength of our domestic economy and the stability of the dollar at home. That fundamental

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truth is reflected in the approach and policies of the Administration. Amid all the debate about one aspect or another of Phase III and food prices, about the budget, and about monetary policy, let us not lose sight of the basic facts:

-- The inflation rate in the United States has been sharply reduced in the period since mid-1971, averaging an annual rate of 2.7 percent through the end of 1972, as measured by the comprehensive GNP deflator. In recent months when food prices have increased sharply, largely in response to forces at work worldwide, industrial prices have remained fairly level.

-- As shown in the table attached, this record in combating inflation has been better overall than that of any other major industrialized nation. Contributing to that result, and promising to help maintain that relatively favorable comparison, we have in being at present a comprehensive wage-price stabilization program. The objectives of that program and its mode of operation are supported by both labor and business. (See attached material.)

-- We recognize the critical nature of the food price problem to the success of this effort. Vigorous action has been taken to get at the root of the problem. Restrictions on basic supply, in place for many years, have been removed. Some 40 million acres have been released for production from the "set aside" program, and "set aside" acreage may be used for grazing. Grains are being sold from CCC stockpile. Quotas are gone on meat imports. The Cost of Living Council and the new Food Advisory Committee will continue to examine other measures that may be desirable and necessary. Actions to increase supply can work only with a lag. But their effect can be powerful. The results will show this year.

-- The President is determined to hold budget expenditures to $250 billion in Fiscal 1973 and $268.7 billion in Fiscal 1974. Those levels can be managed without feeding inflation, and without requiring new taxes. Today, in sharp contrast to widespread skepticism a few months ago, these figures are accepted as both necessary and achievable.

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Obviously, we must not and cannot be satisfied with our progress until price stability is fully restored. But, as we seek to do better, let us not lose sight of the fa : that, comparing U. S. performance with that of other countries, basic price trends are reinforcing the effects of the exchange rate realignment.

I would also emphasize that changes in the monetary system must be -- and I am confident will be -- accompanied by reform of the trading system. Fair exchange rates and competitive prices are essential to stability. So are equitable trading arrangements and access to world markets. We are dedicated to achieving that objective. The Congress will shortly be considering legislation to provide the President with the tools he needs -- tools that can help lead the world to more open trade, and tools that can also assure fairer treatment for American producers.

I would like to trace briefly the specific developments leading to the Bill before you.

In the first year after the Smithsonian Agreement, there was evidence of a healthier world payments situation. As I have indicated, the United States record on inflation improved sharply and compared favorably with that of our major competitors. Though there were notable periods of disturbance, exchange markets were generally calmer. With capital flows dramatically reduced, the U.S. official settlements deficit fell to $10 billion in 1972 from $30 billion a year earlier.

Nonetheless, serious imbalances in the world economy continued. The large trade and current account deficit of the United States, and the large trade and current account surplus of Japan, remained disquieting.

Our trade deficit reached more than $6 billion in 1972, with the balance deteriorating with all major regions of the world. In considerable part, the worsening of the trade balance could be traced to cyclical developments -- the U.S. economy was expanding more strongly than most of our trading partners. We also knew the initial effects of exchange rate changes may be perverse, until business has time to

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change established trading patterns in response to the changes in relative prices.

In early 1973, the prospects, as we saw them, were definitely for an improving trade balance, partly reflecting the 1971 exchange rate changes. But -- given the size of the deficit -- the anticipated improvement did not appear vigorous enough to restore overall balance in a reasonable period. There were equal or greater doubts that Japan's strong trade surplus would be reduced to a size compatible with international equilibrium.

Against this background, new and severe exchange market disturbances emerged in late January. These focused initially on capital flows out of Italy and into Switzerland. However, against the large and persistent imbalances in the U.S., Japanese, and other payments positions, much larger flows of funds soon developed.

A solution was thus needed to several converging problems. There was an underlying need to add a strong, new thrust to the operation of the balance of payments adjustment process. There was an immediate need to restore order to the exchange markets -- and to do so in a way that did not promise fresh disturbances in the future. From the point of view of the United States, we needed to find solutions which would be equitable to American workers and businessmen, which would help set the stage for outward-looking trade negotiations, and would speed and foster constructive reform of the world monetary and trading system.

We needed to act, forcefully and promptly, to achieve these objectives. We have done so.

We wanted first to consult fully with as many of our trading partners as we could in the time available -- to see if we could decide with them on an agreed course. Our approach reflected the view that exchange rate questions cannot and should not be approached as unilateral actions -- by the United States or by other nations. Indeed, they will fail unless others cooperate.

In the event, the interests of the United States coincided with those of others in the actions agreed to: a 10-percent reduction in the par value of the dollar; a cutting loose of the Japanese yen to allow it to float upward to a rate consistent with Japanese balance of payments equilibrium; a continued float by the U. K. and Canada and initiation of a float by Italy; and agreement by others of our major trading partners to maintain then-existing par values.

In this common search for the best solution to our common problems, I found a spirit of realism and cooperation which is heartening for the future. The negotiations were not easy, for hard economic and political decisions were necessary for all. But, I believe, other nations welcomed the U. S. initiative as constructive and responsible. Our willingness to crystallize a needed exchange rage realignment through a devaluation of the dollar was seen as a way to achieve the needed adjustment most promptly and forcibly. In contrast to the compromise struck at the Smithsonian, there was a clear desire on all sides to achieve changes fully commensurate to the magnitude of the problem.

Accompanying the proposal to devalue, we announced two other important steps: First, that present U. S. capital controls will be phased out by the end of 1974; and second, that the President will shortly propose comprehensive trade legislation to enable us to negotiate a reduction of trade barriers. These two steps are closely related to and consistent with the proposed devaluation. I would note in that connection that the realignment of exchange rates, in improving our competitive position, should make the U. S. a more attractive place for investment by both U. S. and foreign companies.

All three moves -- the elimination of capital controls, the proposed trade legislation, and the devaluation -- are directed toward the same general objective: Balance in our trade and payments not supported by the crutch of controls, and within a world framework of freer and fairer trade.

We propose to devalue the dollar by 10 percent. However, the effective change in our exchange rate vis-a-vis Japan -- our largest overseas trading partner -- will be greater than 10 percent. The change is less than 10 percent against, for example, the lira -- which has floated downward part way with the dollar.

Weighted average realignments are sometimes calculated, based on a country's trade pattern. On that basis, the constellation of exchange rates negotiated at the Smithsonian

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represented a realignment for the dollar of approximately 8 percent against all other OECD currencies; or, if the Canadian dollar were excluded, 12 percent.

A measure of the new realignment is more difficult, since a number of currencies are floating and may not remain at present market levels. Nonetheless, as a rough approximation, and using market rates[1/] for currencies which are floating, it would appear the new realignment will yield a weighted average realignment for the dollar in about the same range as the Smithsonian -- about 7-1/2 percent against all OECD currencies, or about 11 percent against all OECD currencies excluding the Canadian dollar.

The Smithsonian realignment has not yet had its full impact on trade flows, and it is appropriate to measure the combined effect of the two realignments. This shows an average realignment for the dollar of about 15-1/2 percent against all OECD currencies, or about 23 percent if Canada is excluded. As between the dollar and the Japanese yen, the change has been much greater thus far -- 36 percent.

Changes of this magnitude obviously have a major competitive impact. Again, however, we cannot expect a quick

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1/ Market rates of February 26 are used in this calculation.

turn-around in our trade position; there is simply no way to blink the fact that it takes time for trade flows to be redirected. The effects in the first months could be adverse because the same volume of imports costs more. The full benefits of the realignment will accrue only over a period of years. Nonetheless, it is plain the new realignment, building on and augmenting the Smithsonian, has greatly assisted the competitive position of U.S. producers, both in the United States and in overseas markets. The change will work strongly toward the restoration of a sizable trade surplus for the United States. That surplus is essential to a balance in our overall external payments, and thus to a stable monetary system.

I have indicated already that the need for this exchange rate change in no way reflected any falling behind internationally by the United States in the inflationary battle since the middle of 1971. Rather, with international disequilibria having persisted so long and having become so ingrained in the structure of the world economy -- in particular the Japanese surpluses and U.S. deficits -- the Smithsonian realignment was simply not in itself enough to promise the improvement we need within a reasonable time span.

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The devaluation of the dollar reemphasizes the need to deal effectively with inflation at home. In that connection, the direct impact on the U.S. price level is slight overall. Obviously, certain foreign goods will cost more in the U.S. market. The very purpose of the realignment is to make U.S. products cheaper abroad and foreign goods more expensive in the United States. The prices of selected import items may rise appreciably -- we already see reports in the press -- and this will provide better opportunities for American products to compete. But overall imports still represent only a very small share of our total GNP -- less than 5 percent. A substantial fraction of those imports come from countries where exchange rate changes vis-a-vis the dollar will be small or non-existent. Consequently, the impact on our general price level will be very small, and will only come over a period of time.

The devaluation we propose would be effected by authorizing the establishment of a new par value of $1 equals 0.828948 Special Drawing Rights; or, in terms of gold, of $1 equals 0.023684 fine troy ounce of gold. That is a reduction of 10 percent in the SDR and gold value of one dollar; it represents a devaluation of the dollar of 10 percent as calculated in terms of International Monetary Fund convention. Calculated alternatively, the change represents an increase of 11.1 percent in the dollar value of one SDR or one ounce of gold.

In the past, the dollar's par value has been expressed only in terms of gold. The Bill before you, in expressing the par value in terms of SDR, as well as gold, emphasizes the importance we attach to the enhanced role of the SDR in the future development of the international monetary system. This move is consistent with proposals the United States has made for international monetary reform -- we have proposed diminishing the monetary role of gold, and we have favored use of SDR as the common unit of account in which all currency values would be measured.

It is perhaps not necessary to point out that the increase in the official dollar price of gold -- to $42.22 per ounce -- in no way suggests that we consider a general change in the price of gold as an appropriate or useful device to increase international liquidity. The Administration has stated repeatedly its firm conviction that a goal of monetary reform should be to continue to reduce the dependence of the international monetary system on that metal. The present market price of gold is well in excess of both the present and the proposed official price. The wild speculative fluctuations in the market price of gold seem to me to point to one of the grave deficiencies in the use of that metal as a centerpiece of the monetary system.

The proposed change in the dollar's par value entails consequent changes in the dollar value of certain assets and liabilities of the United States Government. With the draft Bill, we have submitted to the Congress a detailed explanation of these changes and their effects on appropriations and on cash expenditures. Briefly, there are three categories of items which would be affected by the devaluation:

-- First, there are <u>increases in U.S. assets</u> amounting to $2.5 billion. This represents a write-up of 11.1 percent in the dollar value of our reserve assets -- gold, SDR, and IMF gold tranche -- and in the dollar value of U.S. subscriptions to the IMF and the international lending institutions.

-- Second, there are <u>increases in U.S. liabilities</u> amounting to $1.9 billion. The bulk of this consists of amounts needed to maintain the value, in terms of SDR or gold, of U.S. subscriptions to the IMF and to the international lending institutions. The remainder, estimated at less than $400 million, represents operating losses to be absorbed by the Exchange Stabilization Fund of the Treasury and the Federal Reserve on certain liabilities denominated in foreign currencies whose exchange rates increased relative to the dollar.

-- Third, there are <u>increases in U.S. contingent obligations</u> amounting to $992 million, to maintain the value, in terms of SDR or gold, of U.S. subscriptions of callable capital to the international lending institutions, largely representing the U.S. share in the guarantee of the banks' market borrowing. Conditions under which this capital could ever be called are extremely remote. No impact on actual expenditures has ever occurred or is expected.

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The third category, and some -- but not all -- of the items in the second category, will require appropriations, and requests will be submitted to the appropriate Committees. Actual cash expenditure under these appropriations is forecast at a much smaller amount -- a maximum of $477 million, spread over the 12 years, FY 1974 to FY 1985. There will be no budget impact in Fiscal 1973, only $12 million in Fiscal 1974, rising to an estimated $40 million per year thereafter through 1985.

Mr. Chairman and Members of the Committee, in our view the Bill before you is an important one -- important for the present and for the future. The monetary system has recently passed through a serious crisis. A crisis spells both danger and opportunity. I believe we can turn this crisis into opportunity -- not just for the monetary system, but for the world economy. The Bill before you is a step to take advantage of that opportunity.

I am confident that the proposed legislation -- re-inforced by determined efforts to maintain a vigorous and inflation-free economy -- can provide a firm basis for the restoration of monetary stability and international payments equilibrium. We have a better foundation from which to attack the more fundamental, and formidable, task of building a new trade and payments structure.

The two devaluations since 1971 have been an uncomfortable experience for us and for others. They were, however, needed to complete a major adjustment in the postwar economy. But they cannot and must not become a policy for the future.

We need a monetary system which does not depend on jet planes and secret missions and the kind of hurried negotiations which we were engaged in two weeks ago. We need a system which is less prone to the persistent imbalances and market turmoil and speculation which necessitated those hurried negotiations. We need to deal with our internal inflation, and with our international trading order.

We are working to those ends, as hard as we can. We look forward to responsive positions by our trading partners. Meanwhile, I urge you to report this Bill promptly and favorably, as an important step toward a better monetary order.

Attachments:
1. Table of Price Changes
2. Cost of Living Council Releases
   with Press Statement by the Chairman

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Price Changes in the U.S. and Other Major Industrial Countries
Percentage Change at Annual Rate

	Consumer prices Aug., 1971 to Nov./Dec., 1972	Wholesale prices in mfg Aug., 1971 to Nov./Dec., 1972	Gross national product deflator Year 1971 to Year 1972a/
United States	3.2	3.8	3b/
Canada	4.3	7.7	4-1/2
Japan	6.5	3.8	4-3/4
United Kingdom	7.2	6.3	6-3/4
Germany	6.7	3.9	6-1/2
France	6.3	6.8	5-1/2

a/ Partially estimated.
b/ For period mid 1971 to end 1972, U.S. GNP deflator rose by 2.7% at annual rate. Comparable data not available for other countries.

Sources: Consumer prices: for U.S., U.S. Department of Labor; for other countries, IMF International Financial Statistics. Wholesale prices in manufacturing: for U.S., U.S. Dept. of Labor; for other countries, OECD, Main Economic Indicators. GNP deflators: for U.S., U.S. Department of Commerce; for other countries, OECD, Economic Outlook.

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ATTACHMENT-2

FOR IMMEDIATE RELEASE February 26, 1973

Office of the White House Press Secretary

THE WHITE HOUSE

STATEMENT BY SECRETARY GEORGE SHULTZ

Chairman, Cost of Living Council

We all know that proper restraint and responsible behavior by labor and management in establishing prices and wages are essential. This takes cooperation--and the Labor-Management Advisory Committee, whose first statement is released today, is helping to ensure that cooperation.

This Advisory Committee to the Cost of Living Council includes ten outstanding labor and business leaders. The Committee has held a series of meetings. Last Friday, it held its third formal meeting with Dr. John Dunlop, Director of the Cost of Living Council, who will brief you on the details of the statement they unanimously agreed upon.

I would like to say that the Administration is pleased with the outcome of the meeting and the expression of continued cooperation and support for responsible wage behavior it received from all those concerned. The Labor-Management Committee advised the Cost of Living Council that in order to achieve the President's goal of getting the rate of inflation down to 2.5 percent or less by the end of 1973 that:

First, it would use its considerable influence in cooperation with the government to create a climate favorable to the settlement of collective bargaining negotiations in 1973 without extended work stoppages and in line with the President's economic stabilization policies. The Committee also indicated that it will advise the Cost of Living Council whether particular settlements are, in fact, in line with the established goals.

Second, that to be consistent with the President's stabilization goals responsible wage behavior in 1973 requires continuing stabilization in the average rate of wage and benefit increase (total compensation per man hour) in 1973 compared to 1972.

Third, that continued rises in food prices are a serious threat to responsible wage settlements. I can assure you that the Administration is well aware of the food price problem. The basic solution to the problem of higher food prices is to increase the supply of food, while maintaining mandatory controls on the food processing and distributing industry. This Administration is prepared to take the necessary measures to increase agricultural supplies and to contain and reduce retail food prices. Important steps have already been taken including:

- The release of some 40 million acres of farmland formerly kept out of production under government "setaside" programs.

- The utilization of "setaside" acreage for grazing.

MORE

- Disposal of grain stocks owned by the Commodity Credit Corporation.

- The removal of all export subsidies on food exports.

- The removal of all import quotas on meat for 1973.

- The creation of a Cost of Living Council Committee on Food which will continue to address actions which the Government should take to bring down the cost of food.

- The establishment of a Food Advisory Committee composed of representatives of various segments of the food sector of the economy to recommend necessary actions by government, business, labor and food producers.

Further steps will be taken as necessary. One of these steps, being announced today, is the establishment of a tripartite food industry wage and salary committee to advise the Cost of Living Council and the Labor-Management Advisory Committee on wage stabilization policies and industrial relations measures necessary to meet the special problems of the food industry and its various branches.

Lastly, the Labor-Management Advisory Committee again emphasized the need for appropriate monetary and fiscal policy in a time of rising output and employment for price and wage moderation in 1973. I think the President has made it clear that he plans to do everything he can to restrain federal spending.

The statement by the Labor-Management Advisory Committee sets out a guide to moderate behavior which supplements the existing regulations, which continue in effect, and provides further guidance to conduct which is consistent with our goal. The statement commits leaders of organized labor and management to use their influence to help reduce further the rate of inflation in 1973. It is a recognition that there are no winners in inflation. Both labor and management have a strong self-interest in conducting their affairs with moderation and restraint in the months ahead so that we can finally lick inflation.

I want to emphasize that as a result of the action of the Labor-Management Advisory Committee, the cooperation is right, the attitude is right and the communications are right to make Phase III work. And if we can hold the line on inflation -- and I think we can -- we have a good chance of achieving a new propserity in peacetime.

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I want to emphasize that as a result of the action of the Labor-Management Advisory Committee, the cooperation is right, the attitude is right and the communications are right to make Phase III work. And if we can hold the line on inflation -- and I think we can -- we have a good chance of achieving a new propserity in peacetime.

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COST OF LIVING COUNCIL news

Office of Public Affairs
Room 2104
2000 M Street, N.W.
Washington, D.C. 20508
Phone 202-254-8830

FOR IMMEDIATE RELEASE
Monday, February 26, 1973

Policies to be Applied by the Construction Industry Stabilization Committee in 1973

The year 1973 is seen as a transition to a period without formal wage and price controls in the construction industry. The fundamental objective of policy for the 1973 collective bargaining season is to move toward viable long-run arrangements for dispute settlement in each branch of the industry and toward more effective collective bargaining in the public interest.

The period of controls, as envisaged in Executive Order 11588, should be used to make a major contribution to the resolution of some of the major longer-term problems of the industry through effective cooperation between labor, contractors and the government. Among the most significant of these long-run problems has been: (a) the need for procedures at the national level to facilitate the settlement of disputes over the terms of local or regional collective bargaining agreements, (b) broadening the geographical structure of negotiations in some localities and for some crafts, (c) development of some managerial and labor practices and contract provisions in some localities as they affect costs, (e) greater coordination of collective bargaining negotiations among crafts and associations in some localities, and (f) improvement in the quality of information available for collective bargaining among local and national parties.

1. The Committee seeks to achieve a continuing stabilization of the average rate of increases of collective bargaining settlements in 1973 compared to 1972.

2. The Committee may approve economic adjustments provided for in collective bargaining agreements on a case-by-case basis in the following circumstances:

   (a) Where the parties have made a careful review of the economic provisions of their collective bargaining agreement and have provided or an economic trade-off between increases in wage rates or benefits and other provisions of the agreement in view of the impact of the agreement on costs of construction.

(more)

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(b) A clear showing exists of inequity as measured by the relationship among crafts in a single locality and within the same craft in surrounding localities. Any substantial increase to provide restoration to appropriate intercraft or intercity differentials should be spread over a period of two years or more. The Committee in considering wage relationships over the past decade and needs of the future.

(c) The Committee may continue to give special consideration to agreements which provide for significant changes in the geographical structure of bargaining, including the development of wage zones under one agreement, where such changes would promote the stabilization of collective bargaining and the effective utilization of manpower and management resources. The Committee may also be concerned with the geographical scope of fringe benefit plans.

(d) The Committee may continue to approve adjustments necessary to maintain or provide reasonable fringe benefits. In the ordinary circumstances fringe benefits are to be considered a part of the package settlement. The Committee intends to explore more specific standards in this area.

(e) The Committee may continue to approve adjustments in agreements with low wages and fringes taking into account the area and branch of the industry.

3. No agreement is automatically entitled to an economic adjustment. The structure of wage and benefit rates in the locality and related areas and the consequences for effective stabilization and collective bargaining for the area are to be considered.

4. Attention should continue to be directed to questions of appropriate differentiation of rates by crafts among branches of the industry, such as heavy and highway, housing and commercial work, and local parties and craft boards may be urged to review or consider such differentiation.

5. Deferred increases will continue to be reviewed by the Committee, and those which would cause unstabilizing effects on other negotiations in the industry may be disallowed by the Committee as in the past. The Committee expects relatively few such cases in 1973.

6. The Committee intends to delegate to the national craft boards authorization to act finally on certain cases. However, the Committee will retain authority to review any particular case before final action of the craft board is effective, or to review in advance cases in specified cities or types of cases, or cases of a particular craft.

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COST OF LIVING COUNCIL news

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Room 2104
2000 M Street, N.W.
Washington, D.C. 20508
Phone 202-254-8830

FOR IMMEDIATE RELEASE
Monday, February 26, 1973

Statement of the Labor-Management Advisory Committee

1. The economic environment created by government decisions for the ensuing year is decisive to the operation and to the results of any economic stabilization program. The application of appropriate monetary and fiscal policy in a time of rising output and employment is essential to price and wage moderation. Price and wage controls that have been used in the past 18 months at some cost in efficiency and freedom to private decision making and to collective bargaining cannot substitute for responsible government policy on budgets and money supply in the economic climate of the year ahead.

2. The rapid and continuing rise in food prices at the wholesale level of agricultural products and at retail is a major problem to economic stabilization and to responsible collective bargaining in the year ahead. The prices of agricultural products are susceptible to various governmental decisions. Strong and effective measures to increase agricultural supplies and to contain and cut back prices are essential to responsible wage decisions in 1973.

3. Considering the economy as a whole, responsible wage behavior requires continuing stabilization in the average rate of wage and benefit increase (total compensation per manhour) in 1973 compared to 1972 so as to be consistent with the goal set by the President of getting the rate of inflation down to 2.5 percent or less by the end of the year.

4. The members of this Labor-Management Advisory Committee are prepared to use their good offices to create a climate favorable to the settlement of collective bargaining negotiations in major cases in 1973 within the framework of stabilization policies in cooperation with appropriate governmental officials. The settlement of negotiations over major agreements in 1973 without extended work stoppages or inventory dislocations can make a contribution to orderly economic expansion and stability this year.

5. The parties to collective bargaining agreements should address themselves both to short-term and longer run structural problems which they confront in their industries, localities and particular economic environments. Collective bargaining is pre-eminently a method of problem solving through negotiations. No single standard or wage settlement can be equally applicable at one time to all parties in an economy so large, decentralized and dynamic.

(more)

6. Economic and industrial relations stability is encouraged in 1973 by collective bargaining agreements of more than a year's duration, and in most situations the large first year catch-up that developed from rapid inflation in recent years may not be appropriate in 1973 negotiations.

7. Responsible wage behavior for individual parties in 1973 requires that more attention be directed than in the recent past to issues of long term competitive conditions, productivity and working conditions, wage relationships, benefit costs, as well as to the achievement of moderate settlements.

This Labor-Management Advisory Committee is to advise the Cost of Living Council as to whether particular settlements are consistent with the goal (par. 3 above) for the rate of increase in wages and benefits for the economy as a whole or are unreasonably inconsistent with the goals of the Economic Stabilization Program. In this way parties will be better able to judge responsible wage and benefit behavior in addition to the general regulations.

8. If 1973 is to be a transitional year to a period without formal wage and price controls, with expanding employment and output, the moderate wage behavior described above, and correlate price behavior, is essential in the months ahead.

9. This is an initial statement of the Labor-Management Advisory Committee. The statement is advisory to the Cost of Living Council.

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COST OF LIVING COUNCIL news

Office of Public Affairs
Room 2104
2000 M Street, N. W.
Washington, D. C. 20508
Phone 202-254-8830

FOR IMMEDIATE RELEASE
Monday, February 26, 1973

STATEMENT

The Labor-Management Advisory Committee asked me at its meeting on Friday to release its statement this morning. The statement is advisory to the Cost of Living Council and to parties engaged in collective bargaining. I am pleased to release the unanimous statement and to make a few comments.

The cooperation of labor and management is essential to any effective stabilization program for 1973. This is not only the lesson of American experience but also that of other Western countries.

The statement unaminously adopted by the 10 members of the Labor-Management Advisory Committee provides the basis for such cooperation to help settle contract disputes and to achieve moderate wage and benefit settlements within the framework of stabilization policies. The statement recognizes short run stabilization consideration and at the same time the necessity for the parties to collective bargaining to work together on longer run structural problems.

The Committee undertook in this first statement the task of describing responsible wage behavior. It sets forth a number of requirements for responsible wage behavior.

1. Responsible wage behavior requires "appropriate monetary and fiscal policy in a time of rising output and employment." It stresses that price and wage controls cannot substitute for requisite policies on budgets and money supply.

2. Responsible wage behavior requires "strong and effective measures to increase agricultural supplies and to contain and cut back prices."

3. Responsible wage behavior for the economy as a whole requires "continuing stabilization in the average rate of wage and benefit increases (total compensation per man hour) in 1973 compared to 1972 so as to be consistent with the goal set by the President of setting the rate of inflation down to 2.5 percent or less by the end of the year."

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4. Responsible wage behavior requires an industrial relations "climate favorable to the settlement of collective bargaining negotiations .... within the framework of stabilization policies."

5. Responsible wage behavior requires that "the parties to collective bargaining agreements should address themselves both to short-term and longer run structural problems which they confront in their industries, localities and economic environments." The individual parties should direct their attention more than in the recent past "to issues of long term competitive conditions, productivity and working conditions, wage relations, benefit costs as well as to the achievement of moderate settlements."

6. Responsible wage behavior is encouraged by collective bargaining agreements of more than a year's duration and in most situations the large front-loading that developed from the rapid inflation of recent years may not be appropriate in 1973 negotiations.

7. Responsible wage behavior recognizes that "if 1973 is to be a transitional year to a period without formal wage and price controls, with expanding employment and output, moderate wage behavior and correlate price behavior is essential in the months ahead."

The Committee has had three meetings. It will continue to meet regularly to review developments that influence industrial relations negotiations and stabilization policies.

There are also statements which treat with wage policies in two sectors of the economy continuing under mandatory controls. These statements reflect the approaches to dispute settlement and wage stabilization within existing stabilization policies.

1. The policies to be applied by the tripartite Construction Industry Stabilization Committee in 1973, developed in December and January, have now been approved as a basis for handling wage and benefit cases in the organized section of the construction industry. This statement provides a specific illustration of the general approach of the Labor-Management Advisory Committee and defines the directions in which collective bargaining is to be encouraged in that industry to achieve continuing stabilization and solutions to longer term structural problems.

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COST OF LIVING COUNCIL news

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Room 2104
2000 M Street, N. W.
Washington, D. C. 20508
Phone 202-254-8830

FOR IMMEDIATE RELEASE
Monday, February 26, 1973

Tripartite Food Industry Wage and Salary Committee

Dr. John T. Dunlop, Director of the Cost of Living Council, announced today the establishment of a tripartite food industry wage and salary committee. The committee, made up of labor, management, and public members will perform five basic functions:

1. Review all remaining food industry wage and salary cases filed before January 11, 1973 and advise on the disposition of these cases under Phase II Regulations.

2. Review all new food industry wage and salary cases filed since January 11, 1973 and advise on the disposition of these cases under existing regulations.

3. Advise the Cost of Living Council and the Labor-Management Advisory Committee relative to any wage stabilization policies which are necessary to meet the special problems of the food industry (and its various branches) within the general framework of wage stabilization policies.

4. Cooperate with labor and management organizations in the food industry which operate under collective bargaining agreements and with appropriate government agencies to facilitate the settlement of disputes in 1973 within stabilization policies and to encourage longer-run dispute settlement machinery and procedures.

5. Work with labor and management organizations in the food industry under collective bargaining agreements to improve the structure and performance of collective bargaining in the industry.

Labor, management, and public members of the committee will be announced later. It is expected that the first meeting of the committee will be held this week.

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FOR IMMEDIATE RELEASE February 26, 1973

Office of the White House Press Secretary

THE WHITE HOUSE

STATEMENT BY SECRETARY GEORGE SHULTZ

Chairman, Cost of Living Council

We all know that proper restraint and responsible behavior by labor and management in establishing prices and wages are essential. This takes cooperation--and the Labor-Management Advisory Committee, whose first statement is released today, is helping to ensure that cooperation.

This Advisory Committee to the Cost of Living Council includes ten outstanding labor and business leaders. The Committee has held a series of meetings. Last Friday, it held its third formal meeting with Dr. John Dunlop, Director of the Cost of Living Council, who will brief you on the details of the statement they unanimously agreed upon.

I would like to say that the Administration is pleased with the outcome of the meeting and the expression of continued cooperation and support for responsible wage behavior it received from all those concerned. The Labor-Management Committee advised the Cost of Living Council that in order to achieve the President's goal of getting the rate of inflation down to 2.5 percent or less by the end of 1973 that:

First, it would use its considerable influence in cooperation with the government to create a climate favorable to the settlement of collective bargaining negotiations in 1973 without extended work stoppages and in line with the President's economic stabilization policies. The Committee also indicated that it will advise the Cost of Living Council whether particular settlements are, in fact, in line with the established goals.

Second, that to be consistent with the President's stabilization goals responsible wage behavior in 1973 requires continuing stabilization in the average rate of wage and benefit increase (total compensation per man hour) in 1973 compared to 1972.

Third, that continued rises in food prices are a serious threat to responsible wage settlements. I can assure you that the Administration is well aware of the food price problem. The basic solution to the problem of higher food prices is to increase the supply of food, while maintaining mandatory controls on the food processing and distributing industry. This Administration is prepared to take the necessary measures to increase agricultural supplies and to contain and reduce retail food prices. Important steps have already been taken including:

- The release of some 40 million acres of farmland formerly kept out of production under government "setaside" programs.

- The utilization of "setaside" acreage for grazing.

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- Disposal of grain stocks owned by the Commodity Credit Corporation.
- The removal of all export subsidies on food exports.
- The removal of all import quotas on meat for 1973.
- The creation of a Cost of Living Council Committee on Food which will continue to address actions which the Government should take to bring down the cost of food.
- The establishment of a Food Advisory Committee composed of representatives of various segments of the food sector of the economy to recommend necessary actions by government, business, labor and food producers.

Further steps will be taken as necessary. One of these steps, being announced today, is the establishment of a tripartite food industry wage and salary committee to advise the Cost of Living Council and the Labor-Management Advisory Committee on wage stabilization policies and industrial relations measures necessary to meet the special problems of the food industry and its various branches.

Lastly, the Labor-Management Advisory Committee again emphasized the need for appropriate monetary and fiscal policy in a time of rising output and employment for price and wage moderation in 1973. I think the President has made it clear that he plans to do everything he can to restrain federal spending.

The statement by the Labor-Management Advisory Committee sets out a guide to moderate behavior which supplements the existing regulations, which continue in effect, and provides further guidance to conduct which is consistent with our goal. The statement commits leaders of organized labor and management to use their influence to help reduce further the rate of inflation in 1973. It is a recognition that there are no winners in inflation. Both labor and management have a strong self-interest in conducting their affairs with moderation and restraint in the months ahead so that we can finally lick inflation.

I want to emphasize that as a result of the action of the Labor-Management Advisory Committee, the cooperation is right, the attitude is right and the communications are right to make Phase III work. And if we can hold the line on inflation -- and I think we can -- we have a good chance of achieving a new propserity in peacetime.

# # #

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

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FOR RELEASE AT 12 NOON, CST
WEDNESDAY, February 28, 1973

EXCERPTS FROM REMARKS
BY THE HONORABLE EDGAR R. FIEDLER
ASSISTANT SECRETARY OF THE TREASURY FOR ECONOMIC POLICY
BEFORE THE SHREVEPORT CHAMBER OF COMMERCE
SHREVEPORT, LOUISIANA
FEBRUARY 28, 1973, 12 NOON CST

Among the many public policy questions on our crowded economic agenda for 1973, unemployment and inflation remain as the central issues of our time. In the past year, meaningful progress was achieved on both fronts. The vigorous expansion in economic activity generated a near-record climb in employment, and unemployment was reduced to 5 percent. At the same time, the rate of inflation slowed to around 3 percent -- half the rate of four years ago.

The prognosis for a further improvement in these two vital signs of the Nation's economic health is mixed. Most observers are agreed that the business uptrend has a large reservoir of momentum that will carry the economy forward at a rapid pace through 1973 and bring unemployment down to about 4 1/2 percent.

The consensus breaks down, however, on the outlook for inflation, where there is considerable skepticism about achieving the official goal of cutting back inflation to 2 1/2 percent or less by the end of the year. Fortunately, the Administration's goal has the weight of meaningful policy actions behind it.

-- The greatest need is to maintain a tight rein on the budget. Despite the enormous pressures to increase spending on a wide range of Federal programs, the President is determined to hold the budget to noninflationary levels.

-- The problem of food prices -- by far the most troublesome sector for the stabilization program during 1972 -- is being forcefully attacked by a shift in agricultural policies that will bring greatly increased supplies of meat, grains and other foods to market later in 1973.

-- A comprehensive system of direct price and wage restraints continues in place. Enforcement is mostly self-administered now -- so long as compliance remains satisfactory -- but the rules and standards for responsible price and wage behavior have changed but very little. Perhaps most important, the controls enjoy the cooperation of labor and business, an essential ingredient for any program of this type.

The fight against inflation is far from over. Food prices, especially, will produce some unhappy numbers in the next few months. However, our three-pronged attack -- close containment of the budget, the major food policy actions, and direct controls on wages and prices -- gives us a good, solid chance to slow the rate of inflation to 2 1/2 percent or less by the end of the year.

Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE W04-2041

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FOR IMMEDIATE RELEASE February 27, 1973

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 8, 1973, in the amount of $ 4,205,515,000, as follows:

91-day bills (to maturity date) to be issued March 8, 1973, in the amount of $ 2,400,000,000, or thereabouts, representing an additional amount of bills dated December 7, 1972, and to mature June 7, 1973 (CUSIP No. 912793 QW9), originally issued in the amount of $ 1,896,515,000, the additional and original bills to be freely interchangeable.

182-day bills, for $ 1,800,000,000, or thereabouts, to be dated March 8, 1973, and to mature September 6, 1973 (CUSIP No. 912793 RT5).

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 5, 1973. 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

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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 8, 1973, in cash or other immediately available funds or in a like face amount of Treasury bills maturing March 8, 1973. 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.

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

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FOR RELEASE ON DELIVERY

STATEMENT BY THE HONORABLE PAUL A. VOLCKER
UNDER SECRETARY OF THE TREASURY FOR MONETARY AFFAIRS
BEFORE THE
HOUSE FOREIGN AFFAIRS COMMITTEE
WEDNESDAY, FEBRUARY 28, 1973, AT 2:00 P.M. (EST)

RECENT INTERNATIONAL MONETARY DEVELOPMENTS AND THEIR FOREIGN POLICY IMPLICATIONS

Mr. Chairman and Members of the Committee:

You have asked for some comment on the impact of recent monetary developments on the U. S. international position and programs. I shall endeavor to respond by describing the general background of these developments, and the needs for the future.

The postwar world has brought profound changes in international economic relationships. The recent monetary developments reflect one adjustment to the changed circumstances. However, the monetary changes are only a part of a broader shift toward a new and different economic balance among nations. The economic changes -- and the manner in which they are handled -- interact with our international political and security affairs.

As President Nixon emphasized, in speaking to the assembled nations of the International Monetary Fund last September:

> "Working together, we must set in place an economic structure that will help and not hinder the world's historic movement toward peace.
>
> "We must make certain that international commerce becomes a source of stability and harmony rather than a cause of friction and animosity.
>
> "Potential conflict must be channeled into cooperative competition.
>
> "That is why the structure of the international monetary system and the future system of world trade are so central to our concerns today."

The United States emerged from World War II with its economy unscathed and with unparalled economic dominance in the Western World. Today, 25 years later, the situation

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has changed fundamentally. While the U. S. is still the largest and strongest economy, we must compete on more equal terms with the efficient and large economies of Western Europe and Japan. At the same time, the trading capacities of the developing world are greatly -- if unevenly -- expanding. These fundamental shifts have called for equally fundamental changes in the institutional framework that was established on the basis of the old order.

In no area of international activity has this need been clearer than in the monetary sphere. The international trade and monetary framework which developed after the end of World War II implicitly assumed a United States of predominating financial strength. We were expected to -- and did -- provide a preponderant share of the resources for defense, reconstruction, and overseas development. We accepted certain imbalances in trade and payments arrangements in order to spur economic recovery and the restoration of financial stability overseas. With too little concern for our eroding international financial position, we permitted our international payments to be in persistent deficit, counterbalancing the desired surpluses abroad.

The assumptions underlying those policies grew increasingly obsolete with the shift toward a world of a number of strong currencies and a number of strong economies competing vigorously and more or less as equals. The need for change and the need for reform was signaled dramatically on August 15, 1971. The new policies which President Nixon then introduced, and the new directions the Administration took, pointed toward restoring a new equilibrium and balance in world economic affairs. I have no doubt that, in historical perspective, those moves at and since that time will be seen as a logical and necessary adaptation to the change in underlying economic circumstances.

We seek two related but different kinds of adjustment, both difficult, but both essential to lasting success:

-- First, in adapting to the new competitive world, we must correct the severely unbalanced world payments position that had been permitted to build up over a long period of time. The deficit in the United States balance of payments, and the large

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persistent surpluses of other countries need to be brought to an end as promptly as possible.

-- Second, we must help build a new, equitable and sustainable world monetary and trading order. This requires a re-thinking of basic precepts. We should discard principles and practices that are outmoded, and rededicate ourselves to those which remain valid.

So far as the first of these needs is concerned, we have learned the persistent imbalances in world payments had become more thoroughly ingrained in the structure and fabric of the world economy than had been generally appreciated. Two sizeable exchange rate realignments have been necessary to establish a new basis, in the monetary area, for restoring equilibrium. The Smithsonian realignment in December 1971 provided the first significant step toward improvement. Partly as a result of that move, we could see, at the beginning of 1973, a strengthening U. S. trade position in the future. However, there were doubts that enough improvement would result within a reasonable time span. There were equal doubts that strong foreign surpluses, that of Japan in particular, were likely to decline adequately. This evidence of continued disequilibrium on both sides, together with renewed uncertainities in world financial markets and massive capital transfers, led in early February to the second major realignment, building on and augmenting the Smithsonian.

Mr. Chairman, the February realignment represented a very important step, and I would distribute to the Committee material commenting on it in detail, which has been submitted in connection with the par value legislation now before the Congress. I would emphasize two points in connection with the recent moves:

-- First, this realignment, together with the Smithsonian realignment, provides a major competitive thrust for the dollar and a major competitive opportunity for our industry. We measure the exchange rate change at some 23 percent against our major OECD competitors, excluding Canada. I

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These efforts to create a new and viable trade and monetary system are central to bringing the world economic institutions, practices, and codes of conduct into conformity with the economic facts of the world in which we live. We must proceed through careful cooperative negotiations and decisions, and not allow events to force a series of uncoordinated, ad hoc, and unilateral responses that, taken together, will not serve our basic objectives.

In speaking to the IMF, the President pointed out --

> "..... we are witnessing and helping to create a profound movement in history.
>
> "That movement is away from the resolution of potential conflict by war, and toward its resolution through peaceful means.
>
> "The experienced people gathered in this room are not so naive as to expect the smoothing-out of all differences. We anticipate that the potential for conflict will exist as long as men and nations have different interests, different approaches to life, different ideals.

"Therefore, we must come to grips with the paradoxes of peace:

"As the danger of armed conflict between major powers is reduced, the potential for economic conflict is increased.

"As the possibility of peace grows stronger, some of the original ties that first bound our postwar alliances grow weaker.

"As nations around the world gain new economic strength, the points of commercial contact multiply along with the possibilities of disagreement."

Our challenge is to develop cooperative trade and monetary arrangements for directing nations' energies into constructive competition to the benefit of all. The cooperation demonstrated during the recent crisis augurs well for the success of our efforts.

We have seen historical instances in which a nation's ability to achieve its political and security objectives has been constrained by external financial weakness. The United States has been able to fulfill its responsibilities despite the external financial problems we have faced. The adjustments we seek, by strengthening the economic system, will help to ensure that both the United States and other nations will be able to meet their full share of their joint responsibilities.

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

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Remarks by the Honorable William E. Simon,
Deputy Secretary of the Treasury,
Before the National Association of
Mutual Savings Banks
Mayflower Hotel, East Room, Washington, D.C.
February 28, 1973, 12:30 p.m.

I am delighted to have the opportunity to speak to this distinguished group. Your industry plays a vital role in our economy. Recent statistics show that savings banks have assets of 100 billion dollars, representing deposits by some 23 million people. It is interesting to note that more than one quarter of this amount -- 26 billion dollars -- was added in the last three years alone.

A principal reason for the growth of savings banks has been the willingness of individuals, and families, to assume their own economic burdens, to protect themselves against future wants and uncertainties By putting aside part of current income to pay for what they will need next year, or ten years from now, individuals are displaying responsible thrift which is most beneficial to our economy.

My duties at the Treasury during these first few months in Washington have brought me in contact with an impressive number of current public policy questions. These issues cover an extremely wide range of topics -- finance, trade, energy, and environment. But despite their diversity, all these issues touch, in one way or another, upon two common themes: the need for greater economic discipline and the need for much wider public understanding of how our economy operates.

Our economic goals are ambitious. We wish to see the benefits of improved economic well-being widely dispersed. We wish to subdue inflation. We wish to have a strong international competitiveness.

To achieve these goals, it is critical that we have fiscal discipline -- not only the discipline of the market place, but coupled with self-discipline exercised by responsible business and labor leaders. We also recognize that this discipline must start at home and that to achieve full employment and non-inflationary growth we must attack our greatest enemy -- uncontrolled federal spending.

A better understanding of how our economy operates and the function of interest rates is necessary.

All of us will readily agree that moderation is required in interest rates, and that some self-discipline is required to achieve this. We want interest rates to stay at reasonable levels to encourage business investment and enhance economic growth.

But at the same time, we must recognize the special role interest rates play in regulating our economy. Credit is a crucial resource, because it is used by every sector of the economy. It is needed by every business to finance new plant and equipment, to finance the acquisition of inventories, and to provide working capital. But like all other resources, credit is a scarce commodity. When everybody wants more credit, there isn't enough to go around. Indeed, we would not want an unlimited supply of credit to be available, because an overabundance of credit will very quickly send the economy into inflationary orbit -- remember the classical definition of inflation: "Too much money chasing too few goods."

Accordingly, when the economy approaches its full potential, as it is doing now, credit must necessarily be rationed. As we have seen, part of this rationing process involves a rise in the price of credit, i.e., a rise in interest rates.

Of course, this rise in interest rates need not be explosive. Here is where the discipline is involved. We are now entering a phase in the economic expansion where we can show no complacency about interest rates. Movements in rates must be watched carefully. We wish to see a continued sustainable volume of available credit for housing, state and local governments, and consumers and businesses at reasonable rates of interest. Recent money and capital market developments indicate that we are achieving this goal.

The best way to keep interest rates moderate is to follow responsible fiscal and monetary policies in order to maintain a reasonable balance between the supply and demand for credit. In particular, success in fighting inflation will serve to hold interest rates down by reducing the inflation premium that was built up over the past half-dozen years.

I foresee no squeeze or crunch developing as we will have a proper balance in fiscal and monetary policies, and credit will continue to be available to sustain the economic expansion that is under way.

Fundamentally, we believe that the economic policy we are pursuing will continue to allow us to achieve a strong sustainable economic expansion and a marked slowing in the rate of inflation. This will continue to contribute to maintaining healthy, stable financial markets.

Another place where both self-discipline and understanding are required in our economy is in the economic stabilization program. Despite the concern in some quarters that consumer credit is over-extended, that we are becoming a spend-spend-spend society, the fact remains that thrift exists today -- and is growing. The most significiant thing we in the federal government can do is to take a leadership role in this area by holding the line on federal spending. The President has done exactly this through his commitment to keep spending to $250 billion this year and to $268.7 next year. Such a commitment is the best example for all of us to follow.

According to the recent report of the Council of Economic Advisers, disposable personal income in 1973 is expected to rise about ten percent. Consumer spending is projected to increase about 9 1/2 percent. So once again, savings should show a rise.

Your industry, as custodian of these funds, has a particular interest in inflation control. You do not want to see the dollar in your bank so decrease in purchasing power that it will do the depositor little good when he takes it out in the future. It is his confidence in the dollar and its worth that makes him continue setting aside part of his pay check. This strengthens our savings institutions while contributing to the depositors' own economic well-being.

Realization of the need to make this confidence flourish -- not only for the benefit of banks but for the entire economic life of this country -- was one of the prime considerations behind the economic controls implemented by President Nixon.

I don't think anyone will deny that these controls have been effective, that they have helped us toward economic stabilization. We have seen the rate of inflation come down from six percent in 1969 to a little over half of that. Although the full solution to the problem has not been reached, the fact is that we now have the lowest rate of inflation among the leading industrial nations.

A little over a month ago, we began the third phase of the economic stabilization program. The aims are basically the same as they were in the second phase -- to hold the line on prices and wages, to continue to sustain a healthy rate of economic growth.

This was not a move from control but to self control.

We have taken a step toward the free market by putting enforcement on a self-administered basis in most industries. The rules and standards for responsible price and wage behavior have changed very little. We have not changed our desire to have these rules and standards adhered to. Clearly, there is need for self-discipline on every side to make sure that these controls help us reduce further the rate of inflation. As Herb Stein, Chairman of the Council of Economic Advisers, said, "We now have a system that is as voluntary as it can be and as mandatory as it must be."

Our special concern is food prices, and this area points up the need for better understanding of how our economy operates. It is something of a paradox that the one cost none of us can avoid -- the cost of putting food on the table -- is also the most difficult to control.

Food prices have been the major trouble spot in the stabilization program for the past year. We have carefully considered the idea of putting direct controls on the prices of raw agricultural products. We concluded, however, that they would do more harm than good. One method we are employing in attacking the problem is to increase the supplies. We have taken major steps to see that this happens. The President has announced a phase-down of farm subsidies. We have removed all quotas on meat imports, and have allowed more dried

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milk into the country as well. We have removed 40 million acres from the set-aside program to increase production of wheat and other crops, and we are permitting grazing on the remaining set-aside acres in order to encourage beef production. We are emptying the Agriculture Department's storage bins to put more grain on the market.

Food processing and distribution costs, which constitute 60 cents of each dollar at the check-out counter, are being monitored. The government worked closely with the food industry during Phase II and will be even more deeply involved during Phase III, through the newly-appointed food industry wage and salary committee. In addition, it is apparent that there are areas where productivity can be increased and better cost control applied.

These steps add up to a major shift in agricultural policies and will augment supplies substantially. These measures cannot work on food prices instantaneously.

But we believe these steps will have substantive impact on food prices in the months ahead.

While we are controlling prices and wages we also must control federal spending. Let's consider the budget for Fiscal 1974, presented to Congress by President Nixon. The federal budget is always a highly sensitive issue, but perhaps no budget in recent years has had to accommodate such a complexity of economic forces and social pressures.

In dollar amount, this is the largest budget we have ever had -- 268.7 billion dollars. Of this total, about 202 billion represents what we might call fixed expenses, such as debt service, social security payments, and the like. In the light of today's economic realities, the difference simply will not provide for continuing some of the programs which have been initiated, or envisioned, in the last four years.

Some of the programs which are being cut back have outlived their usefulness. Or, they have proved ineffective for the job they were designed to do. But, like so many government programs throughout history, they had become legendary "sacred cows." Nobody wanted to tamper with them. So they were continued, with a proliferation of personnel and expenses adding up to billions of taxpayer dollars a year. It is time for change.

That is not to say we want to slash expenditures in every area.

The President seeks to double outlays for major pollution control programs. He proposes to increase spending for curbing crime and drug abuse, and for such national problems as the energy crisis.

The 1974 budget reduces the expected deficit for next year to 12.7 billion dollars, just a little over half of this year's 24.8 billion. This can be achieved without tax increases.

Taken together, this three-pronged attack on inflation -- the continued restraints on wages and prices, the major food policy actions and control of the budget -- will help us meet the administration's ambitious, but attainable goal of reducing the rate of inflation by the end of the year.

In closing, I would like to speak briefly about the recommendations of the Hunt Commission, a subject which I know interests you all very much. Following several months of analytical review and consultation with all interested parties, we are now preparing our final policy recommendations of the Commission's report, and I am very hopeful that within the next few weeks we will be able to publicly announce our policy conclusions.

Our objective is to construct a financial system which will operate as efficiently as possible and which will reduce the total cost of the entire package of financial services to consumers while insuring the sustained profitability of financial institutions. Mortgages are important components of consumer credit but so are automobile loans, appliance loans, educational loans, and a whole host of household borrowing requirements. We must create an environment which will allow financial institutions to change with change.

In formulating our recommendations, we are seeking to create an environment in which the deposit financial institutions have greater freedom to compete for funds with other media for savings and investment. This augmented capacity to attract funds, coupled with enlarged competition in the lending of funds, will allow these financial institutions to prosper. To the fullest extent possible, federal regulation and taxation of the deposit financial industry must be tailored to achieve essentially equal application among competing institutions. Finally, we must be satisfied that our proposals for reform will result

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in no diminution in the availability of funds for residential mortgage finance. If we can accomplish these multiple objectives, our recommendations should significantly enhance the performance of our private financial system.

From all indications, it appears that the consumer will be without a doubt the principal beneficiary of various changes in this system. I think all of us realize that the writing of financial legislation is not an easy task but a task which requires clear, cool, and well-thoughtout decisions. Any legislation which emanates from the Hunt Commission will be with us for many years to come and it is certainly in the best interests of the financial community to work together with the Administration, with Congress, with Consumer Groups, and with themselves in order to derive a well-balanced legislative proposal.

Thank you very much.

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TREASURY SECRETARY SHULTZ NAMES DONALD C. PLATTEN
SAVINGS BONDS CHAIRMAN FOR NEW YORK

Donald C. Platten, Chairman of the Board and Director of Chemical New York Corp., and its major subsidiary, Chemical Bank, New York, has been appointed Volunteer State Chairman for the Savings Bonds Program by Secretary of the Treasury George P. Shultz, effective immediately.

He succeeds Crocker Nevin, Chairman of the Board, Marine Midland Bank, New York, who served the Bond Program with distinction for nearly five years.

Platten will head a committee of state, business, financial, labor, government, and media leaders, who -- in cooperation with the U. S. Savings Bonds Division -- assist in promoting the sale of Savings Bonds throughout New York State.

Platten attended Princeton University, from which he graduated in 1940 with a Bachelor's Degree. He joined Chemical Bank that same year.

From 1944 to 1946, Platten served as a first lieutenant in the U. S. Army. Upon the conclusion of his military service, he rejoined Chemical Bank.

Platten became President of Chemical Bank on September 1, 1972, and was named Chairman of the Board as of February 1, 1973.

In addition to his present duties with Chemical Bank, Platten also serves several firms as a director -- including Manhattan Life Insurance Co., Otis Elevator Co., and Thomson Newspapers, Inc.

He is also active in a number of business, civic, and educational organizations, among them: Director, United Fund of Greater New York; Director, Economic Development Council of New York City, Inc.; Chairman, Goodwill Industries of Greater New York; Trustee, American University of Beirut; Trustee, United Student Aid Funds, and Treasurer, Business Council for International Understanding.

Platten is also a member of several clubs, including The University Club, The Economic Club of New York, and the Downtown Association.

He is married to the former Margaret Wyckoff; they have a son, Peter W., and two daughters, Katherine L. (Mrs. Randolph S. Naylor), and Alison C. (Mrs. Alfred G. Vanderbilt, Jr.).

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