U.S. Treasury Dept.

Press releases.

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

FOR RELEASE AT 10:00 A.M.

STATEMENT OF
MR. JOHN M. HENNESSY, ASSISTANT SECRETARY FOR INTERNATIONAL
AFFAIRS, THE DEPARTMENT OF THE TREASURY,
BEFORE THE FOREIGN OPERATIONS AND GOVERNMENT
INFORMATION SUBCOMMITTEE OF THE
HOUSE COMMITTEE ON GOVERNMENT OPERATIONS
MARCH 1, 1973, at 10:00 A.M.

Mr. Chairman and Members of the Subcommittee, I am pleased to have the opportunity to review with you once again the progress and problems connected with the collection of delinquent foreign debt owed to the United States. As you indicated in your letter to Secretary Shultz, today's review will focus primarily on debt matters pertaining to the eight countries you and your staff visited at the end of last year. The hearings you held abroad in these selected countries have, in my opinion, further emphasized the degree of Congressional concern with foreign debt arrearages and demonstrated the determination of our Government to find ways which will assure that the obligations of foreign governments to us will be paid promptly and fully.

As you said in your letter, Mr. Chairman, the hearings abroad have indicated that, at least in these particular countries, the military arrearages represent a major percentage of the delinquencies. Consequently, you have asked that we focus this morning on any problems and suggestions we might have to improve the collection of such debts.

The Treasury Department's collection of information on military debt arrearages, other than long-term military sales, is of comparatively recent origin. The arrearages we are discussing here represent principally accounts receivable from foreigners by the military, the systematic reporting of which was only begun less than a year ago. Prior to that time our reporting system only included foreign debt obligations with a maturity of longer than one year. As you well know, it was pursuant to your Subcommittee's suggestion that we broadened our reporting requirements to include, in addition, all foreign accounts receivable and short-term credits of U.S. Government agencies.

Since we first learned of the magnitude of the military debt arrearages which had previously not been reported to Treasury, we have established close contact with the military departments for the purpose of ascertaining the nature of these arrearages. Last fall, for example, the National Advisory Council held a meeting with the participation of all interested agencies, where the military arrearages were discussed in considerable detail. In addition, both in connection with our reporting functions and our responsibilities to provide current information on country debts to the National Advisory Council, we are in contact with the military on staff level concerning the arrearages.

We have compiled a table on the arrearages of the eight countries that the Subcommittee visited, broken down between military and other debts. I would like to submit this table for the record.

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Arrearages on Debts of Selected Countries
to the U.S. Government, as of June 30 and December 31, 1972
(In dollars or dollar equivalents)

Country and Type of Arrearage	June 30, 1972	December 31, 1972
ance	169,364	441,140
Military	163,194	437,611
Other	6,170	3,529
rmany, Federal Republic of	202,911	187,852
Military	173,945	171,288
Other	28,966	16,564
eece	18,400,033	18,264,066
Military 1/	18,398,691	18,217,617
Other	1,342	46,449
an	36,807,419	37,057,763
Military	949,838	1,345,866
Other 2/	35,857,581	35,711,897
aly	14,577,169	16,245,484
Military	14,576,023	16,244,661
Other	1,146	823
rocco	206,503	8,579
Military	205,762	8,474
Other	741	105
ain	5,036,399	388,347
Military	4,112,547	366,616
Other	923,852	21,731
rkey	87,728,496	87,903,384
Military 3/	87,471,394	87,559,643
Other	257,102	343,741

Includes $17,440,122 representing logistic support provided during the Korean Conflict.
Includes arrearages on World War II accounts ($35,603,711 as of December 31, 1972).
Includes $86,792,033 representing logistic support provided during the Korean Conflict.

Since representatives of the Defense Department and the military agencies appearing before you today are far better qualified than I am to comment on the specific problems pertaining to the collection of debts owed to them, I will limit myself here to some general observations. As I mentioned when I last testified before the Subcommittee, by far the largest portion of military debt arrearages arose from logistical support provided by the United States to other nations during the Korean conflict and the UN operations in the Congo. At the end of 1972, these accounts amounted to approximately $204 million of the $250 million total due and unpaid military arrearages. Indeed, two of the largest amounts set forth in the attached table, namely amounts listed for Turkey and Greece, represent such logistical support costs. These logistical support claims, as you noted Mr. Chairman during one of the hearings in Europe, are very controversial and difficult to resolve, with political as well as financial implications.

Of the remainder of the military debt arrearages on December 31, 1972, military sales on short-term credit accounted for $38 million; long-term credit sales, $4 million; unpaid military mission costs, $3 million; and other logistical support expenses, $1 million.

I understand that the specific problems which have given rise to these arrearages will be discussed by representatives of the

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military departments. Let me just say that we consider it essential that the creditor agencies review their billing and collection procedures to assure timely payments by foreign debtors. If payments are not received on time, consideration should be given to imposing penalty charges on the unpaid balances.

It is important, however, that arrearage data reported by the military agencies do in fact represent overdue obligations of the foreign governments. Because of the nature of the billing process, some of the amounts recorded as outstanding on the books of U.S. agencies may not be recorded as firm obligations on the books of the foreign debtor. For example, some of the amounts may be contested by the foreign government because of discrepancies in quantity or condition of the items delivered. During the time when these accounts are being reconciled with the foreign governments, there is a question whether they should be characterized by the creditor agencies as delinquent. Consequently, it may be desirable to set up a new category in agency reporting which would distinguish between amounts clearly delinquent and those which are outstanding but under discussion with the foreign governments. This would be an additional step in the accurate reporting of foreign debt arrearages.

Turning to the role of our diplomatic representatives in debt collection, you have noted Mr. Chairman that some of our Embassy personnel had little or no knowledge of the debt arrearages of the countries you visited last year. We could provide comprehensive tabulations of arrearages to our diplomatic missions on the basis of the agency reports submitted to Treasury. However, considerable explanatory material on each debt problem would have to be furnished by each creditor agency at the same time if the data were to be meaningful. This would require a very substantial effort on the part of the Government. I question whether providing such detailed information on the whole range of debt arrearages to our posts abroad would justify the very substantial cost since diplomatic intervention in the debt collection process is required only in a relatively few specific cases.

In my view, each creditor agency should collect the obligations resulting from its programs and should request assistance from State Department only after its own procedures have been fully exhausted. In my opinion, it would be an error to shift the responsibility for debt collection to our diplomatic posts. Although their assistance has certainly been utilized in the past and should continue to be relied on in the future, the shifting of responsibility would inevitably result in a duplication of efforts, added costs and, conceivably, in the relaxation of collection efforts by the responsible agencies. Nevertheless, I understand that the Department of State, when a claim is fully documented and is ripe for diplomatic intervention, does not hesitate to use the full range of its diplomatic mechanism to settle overdue accounts.

Finally, Mr. Chairman, you have asked for our views on the possible acceleration of payments, particularly by countries with strong reserve positions. It must be stressed that the foreign debts are contractual in nature and thus their repayment terms can be altered only by mutual agreement. In a number of cases we have had considerable success in reaching such agreements. For example, most of the Western European countries, particularly Germany, France, Italy and the Netherlands, have already prepaid a substantial portion of their war accounts and Marshall Plan debt to the U.S. Government. Specifically, since the late 1950's we have received approximately $2.2 billion of prepayments from these European countries on lend-lease, surplus property, and other war account loans and the Marshall Plan loans. The remaining obligations on such loans are relatively small for some of these countries. For example, as of June 30 last year, Germany owed $1.8 million and Italy only $1.2 million on these loans.

We are constantly alert to opportunities to maximize government receipts. One recent occasion on which we were particularly successful was the repayment of the $355 million U.S. capital contribution to the European Monetary Agreement at the beginning of the year. We felt that the purposes of the EMA, which was originally founded by grant from our Economic Cooperation Administration in 1948, namely, to facilitate full convertibility of the currencies of European members, had been achieved. After several years of discussions, it was decided last December to terminate the Agreement and return to the United States its contribution and earnings thereon. The United States has received a total of $355 million, which represents the initial U.S. contribution of over $270 million and accumulated interest of $84 million. The funds returned by EMA consist of a cash payment of $118 million, a release of $123.5 million which had been held by Treasury in a trust account in the name of the OECD, and the assignment of a long-term claim on Turkey of $114 million. We believe this was a very constructive step by members of the EMA.

In addition, we have been discussing with the Japanese Government the possibility of prepayment of their obligation stemming from our economic assistance to that country after World War II. These discussions have been concluded and the Japanese Government has agreed in principle to make payment in the near future, which will extinguish this obligation.

This, Mr. Chairman, concludes my prepared statement. I will be glad to answer any questions you may have.

Department of the TREASURY 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 COMMITTEE ON WAYS AND MEANS
OF THE HOUSE OF REPRESENTATIVES
THURSDAY, MARCH 1, 1973, AT 10:00 A.M. (EST)

FEDERAL FINANCING BANK

Mr. Chairman and Members of the Committee:

I am pleased to be here today to express the views of the Administration on the Federal Financing Bank Act of 1973. The bill would establish a Federal Financing Bank to provide for coordinated and more efficient financing of Federal and Federally assisted borrowings from the public.

This legislation was first submitted to the Congress by the Secretary of the Treasury in December, 1971. An amended version of the bill was reported favorably by your Committee on September 29, 1972 and was passed by the Senate on October 16, 1972. Yet, the bill was not taken up on the floor of the House before adjournment of the 92nd Congress.

The Federal Financing Bank Act of 1973 has two major purposes: First, it would establish a new agency -- the Federal Financing Bank -- to provide a means of centralizing the marketing and reducing the cost of direct and guaranteed borrowing activities of Federal agencies. Second, the bill would assure debt management coordination by requiring the approval of the Secretary of the Treasury of Federal agency plans with respect to direct and guaranteed security issues in the market.

The need for more effective financing and coordination of Federal credit programs has been recognized in a number of Government and private studies over the past decade and in several reports to the Congress in recent years by the Comptroller General.

The pressing need for the Federal Financing Bank Act at this juncture arises from the growing tendency to finance credit programs directly in the securities markets rather than through lending institutions. Because of the proliferation of new Federal borrowing activities we are already at the point where some Federal financing is coming to market at least three out of every five business days.

Until recent years the typical forms of credit assistance by Federal agencies were either direct budget loans financed by the Treasury or guarantees of loans generally made by lending institutions, such as commercial banks and thrift institutions, who were normally engaged in that type of lending activity and were equipped to service the loans and assume some portion of the loan risks.

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But in recent years, direct loans have given way to increased guaranteed lending, and at the same time we have moved toward full guarantees of timely payment of principal and interest on loans made by private lenders so that the share of risk borne by the lender has declined. Also, the Congress has increasingly provided for direct Federal interest subsidies on loans made by private lenders, so that a portion or all of any extra borrowing costs resulting from inefficient financing of these loans is now borne directly by the Federal taxpayer rather than by the borrower.

Moreover, even with complete Federal guarantees and interest subsidies, it was found that the flow of credit at reasonable interest rates for the various purposes authorized to be assisted by the Congress was not always adequate. Thus, more and more of these programs have come to be financed, like Treasury borrowings, directly in the securities markets rather than through lending institutions. This has been particularly true during tight money periods when the flow of deposit funds to banks and thrift institutions has not been sufficient to assure the availability of financing for Federal credit assistance programs.

Consequently, we have relied more and more on direct securities market financing by means of (1) issues by the privately-owned Federally sponsored agencies, such as FNMA and the farm credit agencies; (2) direct borrowings by Government-owned agencies such as the Export-Import Bank, TVA, and the Postal Service; (3) loan asset sales in the securities market by Government agencies, such as the Farmers Home Administration, CCC, GNMA, FHA, VA, SBA, and GSA, and (4) other Federally guaranteed securities, such as GNMA mortgage-backed securities, public housing bonds, urban renewal notes, new community debentures, merchant marine bonds, mass transit bonds, etc. Similar financing arrangements have been proposed for a number of new agencies or programs.

Federal credit agencies are thus required to 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.

Borrowing 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, problems of timing and small size of issues, 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 Federal Financing Bank Act 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.

The proposed legislation would also assure more orderly and effective Federal financial management by requiring the submission of agency financing plans to the Secretary of the Treasury and the coordination of borrowing activities by the Secretary. The Congress has required such Treasury coordination of agency borrowings in many cases, but some agencies are not subject to the requirements, and in many cases the requirements are vague or incomplete, and their lack of uniformity is awkward and inefficient to administer.

The Federal Financing Bank Act would thus provide both a more effective means of financing as well as a focal point for early recognition of the volume and timing of the proposed level of Government assisted credit and its likely impact on financial markets.

During the course of the Financing Bank hearings last year and in our discussions with Federal agencies, public interest groups, and capital market participants, considerable support for the legislation has developed. Most people agree that the coordinated and economical financing of the Government's activities and programs is clearly in the public interest. In those discussions we found it helpful to emphasize the following points:

First, the Bank would not be a program agency. That is, it would neither add to nor subtract from existing Federal credit assistance programs. The Bank would not be authorized, nor would the Secretary of the Treasury be authorized, to make any judgments with respect to the purposes of Federal agency programs. The Bank is designed merely to improve the financing of programs otherwise authorized by the Congress.

Second, the Federal Financing Bank would not be another big bureaucracy. It would rely upon the staff and facilities of the Treasury Department and the Federal Reserve banks in its borrowing operations. In fact, the establishment of the Bank would reduce Federal bureaucracy since it would eliminate the need for establishing new financing staffs for each new Federal credit program or agency.

Third, the Federal Financing Bank is not a device to remove programs from the Federal budget; nor is it a device to bring programs back into the budget. The Bank would in no way affect the existing budget treatment of Federal credit programs. If a program is now financed outside of the budget, that treatment would continue. If a program is now financed in the budget, that treatment would continue. The Bank is intended to improve the financing of all Federal agency borrowing activities, regardless of their budget treatment.

Fourth, the Federal Financing Bank Act is not an assault on the tax-exempt municipal bond market. Rather than involving the Federal Government in the tax-exempt market, the Financing Bank would permit the

Federal Government to withdraw from that market. Under existing arrangements Federal agencies finance some of their programs in the municipal market by means of Federal guarantees and debt service subsidies on tax-exempt obligations, e.g., for public housing and urban renewal. Those programs currently require about one out of every six dollars invested in tax-exempt obligations. Over time the Federal Financing Bank would permit the removal of the financing of these Federally-impacted programs from the tax-exempt market, thus reducing pressures on that market. Consequently, State and local governments should benefit, in terms of more receptive markets for all their borrowings, by enactment of this legislation.

Virtually all interested parties now agree that the Federal Government should not be financing its own programs, including its loan guarantee programs, in the tax-exempt market. It makes no sense to me, in view of the obvious potential problems in the municipal market, for Federal agencies to be adding to those problems and competing with hard-pressed local governments for the limited and erratic supply of funds attracted by tax exemption.

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The Financing Bank itself would have no authority to subsidize municipal obligations, and it would be authorized to purchase only those municipal obligations which are issued under those few programs which are directly subsidized by other Federal agencies. To the extent that a decision is made to finance those particular programs through the Bank there could be significant savings to government at all levels. Such financing would not involve the Federal Government in any municipal borrowing or project it was not already involved in. Thus the Financing Bank legislation does not raise the question of Federal control over municipal borrowing.

I would like to turn now to the two provisions of the bill before you today which differ from the bill approved by your Committee last year.

First, under this bill the obligations issued by the Federal Financing Bank would be subject to State and local taxation to the same extent as the obligations of private corporations. This provision is a departure from the usual practice of exempting obligations of Federal agencies from State and local taxes. But, the obligations issued by the Federal Financing Bank would be issued primarily for the purpose of financing the Bank's purchases of guaranteed obligations which would otherwise be financed directly in the market on a taxable basis. Consequently, if the Federal Financing Bank issues were exempted from State and local taxation, there would be a loss of tax revenues to State and local governments as compared to the present methods of financing guaranteed obligations.

The other difference between this bill and the bill approved by your Committee last year is that this bill would require the approval of the Secretary of the Treasury of the market financing aspects of certain guaranteed obligations sold in the market. The bill reported by your Committee would have required approval of the Secretary of the Treasury of the market financing aspects of obligations issued or sold by Federal agencies but not of obligations guaranteed by Federal agencies.

Thus, under the bill approved last year, the Treasury would be responsible for coordinating the marketing of guaranteed issues only when they are sold directly by a Federal agency. Yet a number of Federal agencies guarantee obligations sold by others, e.g., by private trustees selected by the Federal agency to handle the sale. Federal agencies arrange for the sale in securities markets of guaranteed merchant marine bonds, new community debentures, tax-exempt public housing bonds, SBIC debentures, GSA building certificates, and many other securities, which are not actually acquired by a Federal agency in the financing process.

Because of the technical distinction in last year's bill, based on whether an agency actually acquires a security before arranging for its market financing, there could be a substantial volume of Government-backed securities flowing to the market without any overall debt management coordination.

We recognize the concerns expressed in the Congress last year about the administrative problems which could result if Treasury approval were required of the terms of each individual loan guarantee, especially in programs involving large numbers of small loans which are financed by depository institutions rather than in the securities market. We have no intention of getting involved in such guaranteed loans, and we had tried to make this clear last year.

Our intent in section 7 of the bill is simply to provide for coordination of agency financing in the securities market. To clarify this further we have amended last year's proposal, so that the bill before you would not require Treasury approval of 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 market as bonds and other similar types of investment securities. We believe that this amendment would properly limit Treasury's responsibilities but would also assure the effective financing of agency programs in the securities market.

I would also like to point out that the provisions of the bill before your Committee today are the same as the provisions of the bill reported by your Committee last year with respect to the U. S. Postal Service. There has been no change in our understanding of the application of the Federal Financing Bank Act provisions to the Postal Reorganization Act. As stated by Assistant Postmaster General Bailar in testimony before your Committee on September 27, 1972 on the Federal Financing Bank Act (S. 3001), under the Postal Reorganization Act the Treasury may purchase all Postal Service obligations if it does so within the prescribed 15-day period, and the Federal Financing Bank Act would have the effect of giving the Secretary of the Treasury the authority to exercise this preemptive right by requiring the Postal Service to sell its securities to the Federal Financing Bank. Thus, the Federal Financing Bank Act would simply provide an additional optional method of financing the Postal obligations.

Mr. Chairman, that concludes my prepared statement. I would be happy to try to answer any questions regarding this legislation.

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FOR IMMEDIATE RELEASE

March 2, 1973

TREASURY SECRETARY SHULTZ NAMES JAMES H. JONES
SAVINGS BONDS CHAIRMAN FOR LOUISIANA

James H. Jones, President, Chief Executive Officer, and Director, First National Bank of Commerce, New Orleans, is appointed Volunteer State Chairman for Savings Bonds by Secretary of the Treasury George P. Shultz, effective immediately. He succeeds Harold W. Mischler, former President National American Bank of New Orleans. Since his retirement, Mischler continues to serve the Bond Program as Chairman Emeritus.

Jones will head a committee of business, banking, labor, government, and media leaders throughout the state who -- in cooperation with the U. S. Savings Bonds Division -- assist in promoting Bond sales in Louisiana.

Born in Harrison, Ark., he attended the University of Arkansas, from which he was graduated in 1953, with a BS in Business Administration. He later attended Southern Methodist University, Southwestern Graduate School of Banking, from which he was graduated with honors in 1960.

Jones began his career in banking in 1953 with the Lakewood State Bank, Dallas. Next year, he joined the Republic National Bank. By 1964, he had become Senior Vice President and Member of the Executive Committee. Four years later he was named Executive Vice President. Since moving to First National Bank of Commerce, in mid-1969, Jones has been designated Chairman of the Board, President, Chief Executive Officer, and Director, First Commerce Corp.; also Chairman of the Board, Chief Executive Officer, and Director, First Commerce Real Estate Corp., in addition to his bank duties.

He is active in numerous business and civic organizations -- President, New Orleans Clearing House Association; Chairman, Greater New Orleans Development Committee; Vice President, International House, New Orleans; Treasurer, Radio Free Europe, and Director, Carmichael Foundation, Inc., Junior Achievement, and New Orleans Philharmonic Symphony. Jones is also a member of several clubs, including Bankers of Mexico, Petroleum and Bienville of New Orleans. His wife is the former Peggy Lou Bort. They have three sons -- James B.; Cliff O., and Lee Christopher.

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FOR RELEASE ON DELIVERY

STATEMENT BY THE HONORABLE GEORGE P. SHULTZ
SECRETARY OF THE TREASURY
BEFORE
THE HOUSE SUBCOMMITTEE ON APPROPRIATIONS
MONDAY, MARCH 5, 1973, 10:00 A.M.

Mr. Chairman and Members of the Committee, I am pleased to be here to present the fiscal year 1974 budget requests of the Treasury and to discuss them with you. I am well aware of the helpful relationship that has existed for many years between the Department and this committee. We sincerely hope to promote this relationship which has been a source of strong support and valuable guidance.

First, I would like to present my associates: Mr. William E. Simon, Deputy Secretary; Mr. Edward L. Morgan, Assistant Secretary for Enforcement, Tariff and Trade Affairs, and Operations; Mr. Warren F. Brecht, Assistant Secretary for Administration; and Mr. Edward J. Widmayer, the Departmental Budget Officer. Under the customary procedure, I have for the record biographical sketches of the witnesses who are making their first appearance before this committee.

This budget reflects our comprehensive efforts to screen and hold down budget expenditures while at the same time recognizing that the growth of the Nation -- both in population and in the economy -- presents almost irresistible requirements for additional Treasury services. Each year the Nation's growth adds greater numbers of taxpayers and a greater number of higher income and more complex returns, increased numbers of travelers cross our borders, and we experience new volumes and varieties of imports. All of these must be dealt with promptly and equitably in accordance with the laws. In addition, there is more business activity requiring more currency, coins, and stamps. Unfortunately, too, there are more counterfeiters, forgers, smugglers, tax evaders, and other law violators. The Social Security Amendments of 1972, which provide for additional Federal

Assistance to the aged, blind, and disabled, place correspondingly greater requirements on the Treasury for significant increased volumes of check issues, check payments, and securities transactions. This budget has been carefully designed and balanced to meet these increasing mandatory workloads and at the same time to provide much needed strengthening to the revenue operations of both the Internal Revenue Service and Customs.

Since you will examine bureau witnesses in detail at a later date, I will only present brief general remarks and provide as an addendum to my statement more detailed comments on each bureau's request.

Fiscal Year 1974

The appropriation request for the regular annual operating appropriations of the Department is $1.776 billion -- $79.2 million above the authorized level for 1973.

I have for the record our usual table showing in detail the derivation of the "proposed authorized level for 1973" (Table 1). I also have a table comparing the fiscal year 1974 request for each appropriation with the 1973 authorized level (Table 2), and a table showing "man-year" or average position requirements (Table 3).

Fiscal Year 1974 Increases

Most of the budget year increases are for the Internal Revenue Service, the Bureau of Customs, the Fiscal Service Bureaus, and construction of the Federal Law Enforcement Training Center.

Internal Revenue Service

The budget request for the Internal Revenue Service is $1.189 billion. Requested increases of $104 million are substantially offset by non-recurring costs -- chiefly the Economic Stabilization Program -- leaving a net proposed increase of $41.8 million over the 1973 level. New funds are needed for IRS's frontline programs which will provide taxpayer assistance in the preparation and filing of their returns and strive to achieve greater compliance with tax laws by strengthening the audit activity. The increased workload for the processing of 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 the nearest IRS offices staffed to help them). We plan to keep many IRS offices around the country 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 can effectively meet legitimate taxpayer requests for information and assistance.

Most of the additional manpower requested for IRS will be devoted to increasing the audit of tax returns, the number of fraud investigations, and to more intensive efforts to collect delinquent taxes. For several years now audit coverage has decreased to the point where literally billions of tax dollars are going unreported and unrecovered. As a result our voluntary tax system has deteriorated. This estimate represents an important step toward reversing the current trend. Moreover, it would result in additional tax collections, aggregating about $250 million. More important, though, is its potential influence toward fostering higher voluntary compliance.

Bureau of Customs

The budget request for Customs is $236.4 million, up $24.7 million over the 1973 level. Most of Customs increase will be needed to meet the unprecedented expansion in international travel and trade. During fiscal year 1972, for example, commercial aircraft passengers arriving from foreign ports increased over 18 percent. Customs processed over 236 million persons through our ports of entry last year -- an increase that represents almost five million people. And during this same period, invoices of foreign importations increased by 14 percent, resulting in increased collections of more than $725 million -- from nearly $3.5 billion in 1971 to almost $4.2 billion in 1972. We are continually improving our collection and enforcement procedures to cope with this annual growth.

This budget also provides for the staffing for a permanent anti-fraud program. This will be a new enforcement effort, oriented toward team examination of cargo to determine if an invoice is fraudulent as to quantity, identity, or value, and to search for smuggled or undeclared items. While the vast majority of importers comply with tariff laws, the increase in trade has brought about a sharp increase in the incidence of attempted frauds. Present examination and investigative methods are restricted by limited manpower. Commissioner Acree wil go into the details of the intensified reviews made in 1972 and the revisions that were made in the Customs entry retrieval system that now makes this a practical enforcement and revenue producing program.

We have also included funds to continue expansion of our air and sea intrusion program to strengthen Customs efforts at detecting and apprehending smuggler aircraft and vessels. As you recall from our presentations in previous years, this program includes the use of sensor equipped aircraft and boats, ground radar, sonobuoys, and sensors. The proposed expansion of this program, which is still only partially implemented, will further control access across the southern border.

Customs is also asking for modest increases to expand the detector dog program. The bureau has been highly successful in its use of trained dogs for screening mail parcels, vehicles, and cargo. From the beginning of the program in April 1970 through December of last year, the seizures of 34,000 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 directly attributed to the dog program. The training of dogs to detect hard drugs has been a breakthrough. About 50 percent of our dogs presently being trained have the capability of sniffing out heroin and cocaine.

Fiscal Service Bureaus

Turning now to the Fiscal Service, the Bureau of Accounts is requesting $71.1 million, an increase of $7.8 million over the 1973 level. This increase is entirely for uncontrollable rises in workloads. The central disbursing activity of the bureau will issue 581 million checks in 1974 -- 61 million more than in 1973. Over 60 percent of the total increase in cost for this work is for the postage that will be paid to the U. S. Postal Service.

The largest part of the increased volume is for the 45 million checks to be mailed to the aged, blind, and disabled as provided by the Social Security Amendments of 1972. Sixteen million items are for the normal annual increments in check issues to be made for Social Security, veterans, tax refunds, and for salaries and vendors' vouchers for the various agencies.

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As you know, we have to process this kind of workload twice. After the Bureau of Accounts issues the checks, the Office of the Treasurer must pay and reconcile check payments with the check issue registers as they return from the public. That Office will also process an estimated 770,000 claims for lost, stolen, and forged checks. An increase of $1.4 million, from $11.3 to $12.7 million, is requested for this bureau in this budget.

Since the Government must provide a proper cash flow for these check payments, our third Fiscal Service bureau is brought into play -- the Bureau of Public Debt. The request for "Administering the Public Debt" is $79.4 million, an increase of $5.4 million above the authorized level for 1973. The growth in the size of the public debt and in the number and complexity of transactions in Treasury securities keeps the workload of this bureau at a high level. There are now about 585 million individual Treasury securities outstanding. Issues and retirements in fiscal year 1974 will involve about 283.4 million of these securities -- a rise of 10.3 million over the anticipated volume for fiscal year 1973. Our major items of additional expense involve reimbursements to the Federal Reserve Banks for their services as fiscal agents and to reimbursing paying agents for redeeming savings bonds.

Federal Law Enforcement Training Center

The appropriation request for construction of the Federal Law Enforcement Training Center is $6 million. This increment would bring total funds appropriated to the Center to $33 million. The remaining requirements to complete funding -- $17.9 million -- will be requested in subsequent fiscal years. The outdoor firing ranges, the Motorcade Training Area, and the Special Training Building are now complete and in operation. The construction manager for the project is now developing the entire project design and construction schedule. It is our plan and hope that the Center will be totally operational early in 1976.

Reductions

There are some major dollar reductions below the 1973 level that I have not mentioned. I refer specifically to funds for design and engineering for Mint construction and funds for additional capitalization of the Bureau of Engraving and Printing Fund for equipment modernization. Amounts for these purposes were provided in 1973 but are not requested again in 1974.

Also, the Bureau of Alcohol, Tobacco, and Firearms shows a reduction of $2.5 million. This reduction is not an indication of our lack of interest in the highly essential functions performed by this new bureau, but it reflects our intention to study its activities and responsibilities during 1974. The bureau was established July 1, 1972, from activities formerly conducted by the Internal Revenue Service. It is responsible for the enforcement of the laws designed to regulate and curtail illicit activities relating to distilled spirits, beer, wine, manufactured tobacco products, firearms, and explosives.

Environmental Financing Authority

In addition to the funding of our operating appropriations we are also requesting $100 million to advance funds, repayable with interest, for initial capital of the Environmental Financing Authority. This new fund was created by Public Law 92-500, "The Federal Water Pollution Control Act Amendments of 1972."

The $100 million -- plus $200 million requested for borrowing authority -- will be used to purchase obligations issued by states or local public bodies to finance the non-Federal share of the cost of any project for the construction of waste treatment works. The purpose of the Authority is to assure that no public body is unable to carry out an approved project because of inability to borrow the necessary funds on reasonable terms. Their obligations will be purchased only after the Administrator of the Environmental Protection Agency has certified that the public body is unable to obtain sufficient credit on reasonable terms, that the project is eligible under the Federal Water Pollution Control Act, and has guaranteed timely payment of principal and interest on the obligations.

Bureau witnesses are prepared to explain their program in detail when they appear before you. This completes my comments on the Department and on the 1974 estimates. The The tables and the addendum are here for the record. I will be glad to respond to any questions.

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Attachments

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Table 1

DEPARTMENT OF THE TREASURY

Derivation of "Proposed Authorized Level for 1973"

1973 Appropriations (P.L. 92-351)	$1,671,018,000
Supplemental Appropriations enacted by Congress (P.L. 92-607):	
Office of the Secretary	3,800,000
Bureau of Customs	2,700,000
Internal Revenue Service, Compliance	4,500,000
Total Appropriations enacted by Congress	1,682,018,000
Pending Supplementals:	
Bureau of Accounts	1,100,000
Internal Revenue Service	12,539,000
U.S. Secret Service	1,825,000
Transfer to National Archives from IRS for early records retirement	-753,000
Proposed Authorized Level for 1973	$1,696,729,000

730038
February 2, 1973

Table 2

DEPARTMENT OF THE TREASURY

Annual Appropriations for Treasury Department for 1973
and Estimated Requirements for 1974
(In Millions of Dollars)

	1973 Proposed Authorized Level 1/	1974 Budget Estimates	Increase or Decrease (-)
Regular Operating Appropriations:			
Office of the Secretary	16.3	17.0	.7
Federal Law Enforcement Training Center:			
Salaries and Expenses	2.0	2.2	.2
Construction	--	6.0	6.0
Bureau of Accounts:			
Salaries and Expenses	63.3	71.1	7.8
Government Losses in Shipment	.3	.8	.5
Bureau of Alcohol, Tobacco and Firearms	75.5	73.0	-2.5
Bureau of Customs	211.7	236.4	24.7
Bureau of Engraving and Printing	3.0	--	-3.0
Bureau of the Mint:			
Salaries and Expenses	24.0	24.5	.5
Construction of Mint Facilities	2.0	--	-2.0
Bureau of the Public Debt	74.0	79.4	5.4
Internal Revenue Service:			
Salaries and Expenses	34.7	34.7	--
Accounts, Collection and Taxpayer Service	517.0	531.7	14.7
Compliance	595.4	622.4	27.[illegible]
Total, Internal Revenue Service	1,147.0	1,188.8	41.8
Office of the Treasurer, U.S.:			
Salaries and Expenses	11.3	12.7	1.4
Check Forgery Insurance Fund	1.8	--	-1.8
U.S. Secret Service	64.5	64.0	-.[illegible]
TOTAL, Regular Operating Appropriations	1,696.7	1,775.9	79.2

NOTE: Amounts are rounded and do not add to total

1/ Does not include pay increases authorized by Executive Order 11691, effective January 7, 1973.

730039
February 2, 1973

Table 3

DEPARTMENT OF THE TREASURY

Comparative Statement of Average Positions
Fiscal Years 1973 and 1974
(Direct Appropriations Only)

	1973 Authorized Level	1974 Estimate	Increase or Decrease (-) over 1973
Regular Annual Operating Appropriations:			
Office of the Secretary	632	718	86
Federal Law Enforcement Training Center	75	83	8
Bureau of Accounts	1,427	1,540	113
Bureau of Alcohol, Tobacco and Firearms	3,915	3,805	-110
Bureau of Customs	11,745	12,661	916
Bureau of the Mint	1,513	1,554	41
Bureau of the Public Debt	2,478	2,467	-11
Internal Revenue Service:			
Salaries and Expenses	1,719	1,667	-52
Accounts, Collection and Taxpayer Service	38,524	38,222	-302
Compliance	32,657	34,561	1,904
Total, Internal Revenue Service	72,900	74,450	1,550
Office of the Treasurer, U.S.	891	948	57
U.S. Secret Service	2,817	2,817	--
TOTAL, Regular Annual Operating Appropriations	98,393	101,043	2,650

730040
February 2, 1973

ADDENDUM

BUREAU STATEMENTS

OFFICE OF THE SECRETARY

The estimate for the Office of the Secretary is $17 million and 723 average positions. The estimate is a net increase of $700 thousand and 86 average positions over the proposed authorized level for 1973.

The Office of the Secretary's functions are directly related to the responsibilities of the Secretary of the Treasury as a major policy advisor to the President. This Office has the primary responsibility for formulating domestic and international financial, tax and fiscal, and monetary policies as well as the direction and administration of the Department, supervision of legal and enforcement activities and the operation and maintenance of two buildings.

A total of 61 new positions (52 man-years) are proposed to provide professional and clerical assistance in several offices. Almost half of this increase is for the Office of Revenue Sharing -- 29 positions and $718 thousand -- in the further implementation of the State and Local Fiscal Assistance Act of 1972. Administering this Act, which covers 39,000 state and local governments, involves a variety of exceedingly complex responsibilities and functions, including: control, verification, and analysis of data used for applying revenue sharing formulas; development and issuance of

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regulations; adjudication of disputes over amounts of allocations and purposes of expenditures; on-site audits and review of audit reports on local government expenditures. The legal workload includes promulgating revenue sharing regulations and responding to or resolving a multitude of legal questions and problems.

The remaining 32 positions, costing $524 thousand, are to provide adequate and competent staff support required for the enormous amount of policy study, formulation and control operations performed by the Office of the Secretary. These are described and justified in more detail in the submission covering the entire Office of the Secretary.

CONSOLIDATED FEDERAL LAW ENFORCEMENT TRAINING CENTER

Salaries and Expenses

The appropriation request for this interagency training center for the fiscal year 1974 is $2.2 million, an increase of $200,000 over the proposed authorized level for 1973.

The training center now has two regular operating units, the Criminal Investigator School, previously called the Treasury Law Enforce- School, and the Basic Police School. The Criminal Investigator School conducts a 6-1/2-week basic training program in criminal investigation and enforcement law for new agents of the five Treasury enforcement agencies. In fiscal year 1973 the school added training of Department of State Security Agents, Bureau of Indian Affairs Investigators, Sports Fisheries and Wildlife Game Management Agents and Commercial Fisheries Agents. The expected student load in FY-1973 is 1,253. In FY-1974 the Postal Service Inspectors will be added.

At the beginning of FY-1973 the Basic Police School started to train U. S. Park Rangers, U. S. Park Police, Executive Protective Service officers, Bureau of Indian Affairs Police, Sports Fisheries and Wildlife Vistor Protection Specialists and Smithsonian Zoo Police. Arrangements were made to train Deputy U. S. Marshals during FY-73, although originally the schedule was for the deputy marshals to enter the program in FY-74. FAA airport police are also trained when space is available. The Center anticipates the training of 448 students in the basic police course during fiscal year 1973.

During FY-1974 work towards the development of the curriculum for the Consolidated Training Center will continue. During FY-1971 and 1972 most of the course development work was handled by contracts. In FY-1973 the Center increased its staff to handle more of this work in-house, and plans are to continue to increase this capability in FY-1974.

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Construction of the Beltsville Facility

At the end of FY-1972 construction funds of $3.6 million had been obligated from the Center's appropriation for the Beltsville facility and the Government had total obligations from all sources that date of $5.3 million.

The outdoor firing ranges, Motorcade Training Area and the Special Training Building, now complete and operational, are being used for training.

A law suit filed by the Maryland National Capital Park and Planning Commission and the District Council for Prince Georges County, alleged that the Environmental Statement previously filed did not comply with the provisions of the Environmental Protection Act. A new Environmental Impact Statement has been prepared and submitted to the Council on Environmental Quality. The law suit is still being contested but we feel certain that it can be resolved shortly.

The Construction Manager for the project is now developing the entire project design and construction schedule. Current plans are that the construction of the balance of the facility will begin this year. This would make the facilities totally operational early in 1976.

The Center's 1974 construction appropriation request is for $6 million. This would bring total funds appropriated for the Center to $33 million allowing the Center to continue construction of the facilities. $17.9 million, which would complete funding, will be requested in a later fiscal year when they are required.

BUREAU OF ACCOUNTS

Salaries and Expenses Appropriation

The 1974 estimate for the Bureau of Accounts is $71.1 million -- a net increase of $7.8 million above the 1973 level. This increase is entirely for uncontrollable rises in workloads. Over 60% ($4.7 million) is for postage on increased check volume for social security and other benefit payments. The central disbursing activity financed by this appropriation will issue 581 million checks in 1974 -- 61 million (12%) above the 1973 level.

Of the increased check workload, 16 million is the normal annual increase in existing programs. At the 1972 productivity rate, these 16 million items would require an additional 35 man-years. However, after giving effect to productivity improvements, all manpower requirements for this normal workload increase are being absorbed.

The rest of the increased check volume, 45 million items, is due to the Social Security Amendments of 1972, Public Law 92-603. This law provides for Federal assistance to the aged, blind and disabled -- starting in January 1974. This major new program will increase the monthly check issue output by almost 20%, starting at mid-year, and will require a minimum of 113 man-years in 1974 including start-up costs involved in systems development and installation.

The funding requirement for the other four activities in the Bureau of Accounts is only slightly over 1973 and is required to maintain current levels of operations.

Government Losses in Shipment

This self insurance account covers losses in shipment of government property such as coins, currency, securities and losses in connection with the redemption of savings bonds. An appropriation of $800 thousand is requested in 1974 to cover these losses.

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BUREAU OF ALCOHOL, TOBACCO AND FIREARMS

The request of the Bureau of Alcohol, Tobacco and Firearms for the fiscal year 1974 is $73 million, a decrease of $2.5 million from the proposed authorized level for 1973. The Bureau's average positions under this request would amount to 3,085, a decrease of 110 from the average positions provided for in 1973.

Under this request, the Bureau will carry out its responsibility for the enforcement of the laws designed to prevent illicit activities and to regulate lawful activities relating to distilled spirits, beer, wine, manufactured tobacco products, firearms and explosives.

The regulatory enforcement function, which is responsible for administering the Internal Revenue Code and other laws pertaining to distilled spirits, wine, beer, tobacco products, firearms and explosives, will receive $23.7 million of the amount requested. This is a decrease of $382,000 from the prior year.

The criminal enforcement function will receive $49.1 million of the requested amount to provide for the enforcement of the Federal laws relating to distilled spirits, firearms and explosives. The total amount made available for this function is $2.1 million below the level for 1973.

BUREAU OF CUSTOMS

The 1974 request of the Bureau of Customs is $236.4 million, an increase of $24.7 million over the authorized level of 1973. Of this increase, $8.2 million is to maintain current levels of employment and operations, and $16.5 million is for program increases. Of the program increases, Customs proposes to devote $8.6 million toward increased workload, $1.6 million toward productivity enhancing projects, such as, X-ray screening of mail, detector dogs, and the automated merchandise processing system, $2.5 million to strengthen efforts against fraud, and $3.3 million for the air and sea intrusion program.

All major Customs workload indices increased in fiscal 1972. Commercial aircraft passengers arriving from foreign ports increased over 18 percent. In total almost 5 million more persons arrived at our land, sea and air ports in 1972 than in 1971. Invoices of foreign importations increased more than 14 percent. These increases are continuing in 1973 with commercial aircraft passengers and invoices of foreign importations both up more than 8 percent, and an increase of well over a million persons crossing our land borders during the first quarter. This budget is an attempt to catch up with ever increasing workloads and responsib

For the first time we are making provision for a permanent anti-fraud program The competitive nature of the import business indicates that the potential for fra by importers importing identical merchandize is very high. In 1972 with 25 man-ye of agents time and an equivalent amount of examination time, 649 fraud cases were produced that reflected a loss of revenue of almost $6 million. Fines and penalti on these cases would produce at least an additional $12 million, creating almost $18 million additional revenue. But present examination and investigation can be only piecemeal due to limited manpower. Customs proposes to redirect its efforts from piecemeal investigations to broad-scale, high potential investigations of the importing community.

On the narcotics enforcement side, we have made positive gains with sharp increases in the number of seizures, arrests and convictions. Despite this rise in seizures and arrests, drugs are still readily available in our towns and cities, in our schools, and on our street corners. However, there are signs of progress. Heroin is in short supply in several major east coast cities - New York, Baltimore and Washington, D. C. Outside of our borders drug abuse has spread and assumed serious proportions in industrialized nations on several continents. This, in turn, has led to international cooperation on an unprecedented scale. Yet, we cannot claim that we have the situation under control. Therefore, Customs is requesting $3.3 million to expand its air and sea intrusion program to strengthen our efforts at detecting and apprehending smuggler aircraft and vessels.

The use of dogs in examining mail parcels and other shipments for marihuana and hashish has been highly successful. More significantly about fifty percent of the dogs presently being trained have the capability of sniffing out the harder narcotics of heroin and cocaine. In 1972 the detector dogs screened 111,152 vehicles, 8,442,920 mail packages, and 2,120,426 units of cargo. They were instrumental in the seizure of 34,378 pounds of marihuana, 3,744 pounds of hashish, 27 pounds of opium, 16.7 pounds of heroin, plus smaller amounts of cocaine hallucinogen, amphetamine or barbiturate pills and tablets. The 1974 request of $926,000 will provide 95 more dogs and 71 additional dog handlers.

We are continuing the development of an integrated computer system to automate the processing of merchandise at major Customs ports of entry. It will help Customs handle a dramatic increase in trade documentation through increased productivity in field operations and standardization of duty assessment and revenue collection procedures. The FY-1974 request will provide $600,000 for the operational test to begin in December 1973 in Seattle, Washington.

Five X-ray units are presently in use at our mail facilities in Chicago, Los Angeles, New York, and San Francisco. Mail packages, without being opened, can be examined in ten seconds via a remote video screen. Shadow characteristics indicate the presence of contraband as well as assisting in the verification of declared contents. The X-ray units process an average of 1,000 parcels per day. The 1974 request would provide 3 X-ray units and $120,000 for Miami, San Francisco and Seattle.

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BUREAU OF ENGRAVING AND PRINTING

The production operations of the Bureau of Engraving and Printing are conducted on a completely reimbursable basis, financed by means of a revolving fund authorized by the Congress.

As you are well aware your Committee had directed, in reporting out the 1973 Appropriation Bill, that a review be made of the pricing policies for Bureau services. The objective of this review was to establish prices which would generate sufficient funds to cover the direct and indirect cost of operations as well as accumulate an adequate reserve for replacement of capital equipment. To this end much work has been accomplished within the Department in the development of both short and long-range proposals which, if implemented, will obviate the necessity for the Bureau to seek appropriations to carry on its technological improvement programs which are the key to the remarkable productivity record achieved by this organization. Additionally, a contract was awarded to a leading firm of consultants to perform an independent study to develop constructive practical recommendations for an acceptable means of financing Bureau work programs and capital improvements. The report of findings by this firm were constructive and presented a solid foundation for the Department's objectives. A positive program is currently being developed for presentation to your committee.

Meanwhile, with the $3 million made available in the 1973 appropriation, the Bureau is planning for the acquisition of equipment to accomplish present and imminent product requirements. A contract will be awarded for additional modern high-speed currency presses which will enhance the Bureau's production capacity in meeting continuing increases in the level of currency requirements. Additional production units of the highly-successful currency numbering and processing equipment are to be acquired to automate a greater portion of the all-manual finishing operations associated with the production of currency. In addition, funds have been allocated to acquire photographic equipment to make the negative and positive film work required for the etching of printing cylinders used on rotogravure presses. It is anticipated that the greater productivity potentials from planned equipment acquisitions and improvements in the processing operations will effect further economies to customer agencies served and to the Government as a whole.

In light of the continuous upward demand being experienced in Bureau work programs, the Department initiated a study during the past fiscal year to determine whether an emergency or crisis situation existed with respect to the ability of the present Bureau facilities to meet the anticipated demand for its products over the next 5 to 10 years. In its report of findings, the study group felt that an additional facility would be required by 1980 and should be of sufficient size to accommodate the demand to the year 2,000. In view of the long lead time required for the construction of a special purpose industrial type building, the Bureau has been actively engaged in doing much of the preliminary work associated with the project prior to requesting funds of the Congress to proceed with the construction of the building.

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BUREAU OF THE MINT

The Bureau of the Mint is requesting a total appropriation for Fiscal Year 1974 of $24.5 million, an increase of $500,000 over the authorized level for Fiscal Year 1973.

The greater part of this request is for $16.4 million for coinage which will enable the Mint to produce 477 million more coins, or a total of about 8.9 billion, as compared with 8.4 billion coins in Fiscal Year 1973. The production of 1¢ pieces will comprise over 71 percent of total coinage, as the demand continues high for this denomination. The remaining $8.1 million will be used for receiving gold and silver bullion, safeguarding the Government's holdings of monetary metals, and refining gold and silver bullion.

The Philadelphia Mint will be operating at near optimum production in manufacturing coinage strip, and substantial cost reductions in coinage operations are expected to be realized at that facility during this period. The Philadelphia and Denver Mints will produce all the domestic coins required for circulation, with the San Francisco Assay Office operating only on numismatic products and other reimbursable areas. The latter office will be available also to meet any sharp surge in the coin demand.

The Bureau of the Mint is not requesting funds for construction in Fiscal Year 1974. Due to the delay in obtaining a site for the new Denver Mint, target dates for procurement of long-lead-time equipment have been programmed for Fiscal Year 1975.

BUREAU OF THE PUBLIC DEBT

The request for the appropriation "Administering the Public Debt" for fiscal year 1974 is $79.4 million, an increase of $5.4 million above the authorized level for fiscal year 1973. This appropriation finances the operations of the Bureau of the Public Debt, estimated at $69.7 million, and the U. S. Savings Bonds Division, estimated at $9.7 million.

The major items of increase are in the amounts provided to reimbur the Federal Reserve Banks for their services as fiscal agents, to reimburse paying agents for redeeming savings bonds, to purchase additi security stock and to fund the ongoing consolidation of the Bureau's field offices. Except for the consolidation, the cost increases are based on estimates of higher volume and anticipated higher costs of goods and services. At this Committee's request we completed and filed with the Committee a study of the cost of reimbursing Federal Reserve Banks for services and the use of paying agents to redeem savings bonds. The principle of reimbursement to the banks is well-established; it provides a means by which Congress can review all public debt costs, direct and reimbursable, in the appropriation process. The use of financial institutions to redeem savings bonds is an essemtial element in the savings bond program and there is no reasonable alternative that can provide the same service. The fee schedule is of long-standing and is highly favorable to Treasury.

The growth in the size of the public debt and in the number and complexity of transactions in Treasury securities keeps the workload at high levels. The gross public debt as of December 31, 1972, was $449 billion. There are now about 585 million individual Treasury securities outstanding.

It is estimated that issues and retirements in fiscal year 1974 will total 283.4 million securities, a rise of 10.3 million over the anticipated 1973 volume.

The steady increase in the number of transactions and in the volume of outstanding securities creates added workload for the Bureau in processing correspondence, claims, and other requests from security holders for service. The Bureau is continuously seeking to expand the automation of its operations and accounts to deal more efficiently and economically with its workload.

SAVINGS BONDS DIVISION

In calendar 1972, the Savings Bonds program had its most successful year since 1945. Total 1972 sales amounted to a record $6.2 billion, up 14 percent from 1971, while redemptions rose by only 2 percent, and the total amount of Savings Bonds and Freedom Shares outstanding attained a record high of $58.1 billion at year-end. This represents an increase of $3.3 billion during calendar year 1972, the greatest annual growth in 27 years.

The Savings Bonds Division operates with a paid staff of fewer than 500 full time employees, depending upon a great volunteer organization of several hundred thousand to carry out its mission. National working committees are chaired by outstanding leaders and there is a volunteer organization in each state, under the leadership of State and County Chairmen. The national advertising compaign, amounting to more than $60 million in donated time and space is presented under the auspices of The Advertising Council.

Savings Bonds holdings account for nearly one quarter of the privately held portion of the Public Debt and presently provide the lowest cost - and least inflationary - type of financing available to the government. The average life of Savings Bonds now outstanding is over 7 years, and the Bonds being sold today will remain outstanding, on the average, about five years and 10 months - in sharp contrast to the marketable debt, which has an average life of only three years and two months.

Payroll Savings continue to be the dominant sales activity, accounting for about 60% of total sales. More than 2-1/2 million new and increased savers were enrolled in 1972, oversubscribing the National Industrial Payroll Savings Committee's goal and resulting in the greatest E Bond sales year since 1945.

INTERNAL REVENUE SERVICE

The Internal Revenue Service's proposed budget for 1974 totals $1.189 billion. Requested increases of $104 million are substantially offset by non-recurring costs - chiefly the Economic Stabilization Program - leaving a net proposed increase of $42 million over the proposed level for fiscal year 1973.

All program expansion requested in this budget is concentrated in the Service's frontline programs of taxpayer assistance and revenue production. No program increase is requested for the support functions or even for processing the two and a half million more tax returns that are expected in 1974. The Service plans to meet this 2 percent growth in return processing workload through greater productivity afforded by the Integrated Data Retrieval System (IDRS) and the increasingly efficient new service centers. These major capital improvements in Service operations were provided by this committee in earlier budgets.

Taxpayer Service

Surely one measure of how well the tax system functions is the taxpayer's ability to fill out his tax return. The fact is most taxpayers feel they lack this ability. They have turned in increasing numbers to commercial returns preparers. Many can ill afford this surcharge in meeting their tax obligation; and some returns preparers have been found to be unethical or incompetent.

The Service cannot ignore the problem. The short Form 1040A has been reintroduced this year to simplify filing for millions of taxpayers. An important part of this budget request is for additional taxpayer service personnel and other resources (682 average positions, $12 million) to enable

IRS to be more conveniently available and responsive to taxpayers' need for information and assistance.

Our request would permit extension nationwide of Centiphone, a system providing taxpayers (no matter how remote) toll-free telephone access to IRS offices staffed to help them. It would provide for keeping many IRS offices open evenings and Saturdays during the filing season - offering assistance at the taxpayers' convenience. It would also provide temporary offices in outlying areas. The new taxpayer service specialists would also cut down on the costly detail of audit and collection staff into taxpayer service work.

We are not expanding our taxpayer service 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. Virtually all taxpayer service will continue to be provided on the basis of self-help.

Audit

Just over 2,900 additional average positions ($40.8 million) are requested for expanding audit of tax returns. This program is the heart of the effort to assure compliance with the tax laws. Over several years now, audit coverage has thinned to the point where billions of tax dollars annually are going unreported and unrecovered and deterioration in the generally high levels of tax compliance is of real concern. The Government cannot afford to allow this costly trend of insufficient tax law enforcement to continue. This request for 1974 is a step toward reversing the trend. It would result in additional recommended tax from audits of about $250 million, or about six times the cost. Its indirect influence in fostering higher voluntary reporting and a healthier tax system in future years is of still greater benefit than the first year's direct tax yield.

Tax Fraud Investigations

The Services's budget includes 135 new average positions ($2.3 million) to achieve a more adequate level of investigation of tax fraud among the general population. In recent years many agents have been shifted to investigations of organized crime and narcotics, resulting in far too few agents being available for the general program. Hundreds of potential fraud cases have had to be passed over without investigation for lack of manpower. It is important to correct this situation and raise the deterrence to potential tax evasion in the future.

Collection

Unduly large backlogs of delinquent taxes are the costly result of a currently inadequate Collection program. There also is the problem of nonfilers which has not been adequately dealt with. This Committee has emphasized the need for a stronger program of identifying and getting on the rolls those who simply are not filing returns. This applies both to income and excise taxes.

A program increase of $2 million for 86 average positions is requested to improve Collection programs. This will produce over $80 million in tax assessments from returns that would otherwise not have been filed. This alone is about twice the amount of the net increase requested for the entire Service.

Collection of State Individual Income Taxes (Piggyba king)

Finally, the Service's 1974 request provides for the design and development of a system to collect state income taxes (piggybacking). While it now appears the program will not be operative until 1975, IRS must design the system, complete computer programming, and modify returns processing procedures and tax forms during fiscal year 1974. This will require an estimated 177 average positions, costing $3.2 million in fiscal year 1974. These developmental resources are essential in 1974 if the IRS - and the Federal Government - is to have ready a workable system of piggybacking when states wishing to participate begin signing up.

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OFFICE OF THE TREASURER, U. S.

The Office of the Treasurer of the United States will require $12.7 million for operating expenses during fiscal year 1974, an increase of $1.4 million over the authorized level for 1973. This office must process the annual payment of about 725 million Government checks and reconcile these checks against reports of issues submitted by disbursing officers. Lost, stolen, and forged Government checks will result in 770 thousand claims to be processed. The increase in 1974 is needed primarily to process the additional workload which will be generated by Social Security Amendments of 1972. This law federalizes payments now made by the states to the blind, disabled, and aged, and will require the processing of an additional 45 million checks and 71 thousand check claims by the Office of the Treasurer.

Manpower requirements for all other activities of the Treasurer's Office which involve accounting and reporting functions relating to public monies, redemption of Government securities presented to the Treasurer, and custody of securities for various Government departments or agencies are being held to previous levels despite increased workloads and demands.

U. S. SECRET SERVICE

The appropriation request for the U. S. Secret Service for the fiscal year 1974 totals $64 million, a net decrease of $475 thousand from the proposed authorized level for the fiscal year 1973. The reduction in the amount requested, compared to the fiscal year 1973, is due to non-recurring costs of candidate and nominee protection. No additional positions are being requested. However, funds are required for mandatory and other increases necessary to maintain programs at current operational levels.

Counterfeiting activity increased slightly in the fiscal year 1972 with 23,333 cases received for investigation. Despite the fact that the Service seized $22,921,455 in counterfeit notes before circulation, almost matching the record seizures in the fiscal year 1971, losses to the public increased from $3,488,159 in fiscal year 1971 to $4,830,869 in the fiscal year 1972.

The large amount of notes seized before circulation is indicative of the potential losses possible without vigorous enforcement. The efforts of the Service in this regard are best reflected in the 2,331 arrests for counterfeiting in the fiscal year 1972, an increase of 32 percent over the 1,766 arrests in the previous fiscal year.

The forgery of Government checks continues to be a major enforcement problem. The 75,759 check cases received for investigation in the fiscal year 1972 is an increase of approximately 15 percent over the 66,004 cases received in the fiscal year 1971. During this same period of time the number of arrests increased by 841, or 29 percent, from 2,910 in the fiscal year 1971 to 3,751 in the fiscal year 1972.

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During fiscal year 1972 the Service closed 21,075 bond forgery cases. Arrests in these cases for the fiscal year 1972 totaled 177, an increase of 22 percent over the number arrested in the preceding fiscal year.

Candidate and Nominee Protection

The current program for the protection of candidates and nominees has been concluded and the appropriate deduction for these non-recurring expenses has been included in the appropriation request for the fiscal year 1974. The release in the latter part of the current fiscal year of the special agents assigned to the program will permit the channeling of additional resources into criminal investigations. It should be noted that during the period of augmentation for candidate and nominee protection, no additional special agents were requested for criminal investigations in the field, since it has always been the plan of the Service to utilize the additional agents in the intervening periods between elections to combat the increasing criminal investigative workloads in counterfeiting, forgeries, and other areas.

Foreign Dignitary Protection

Under the provisions of Public Law 91-651 approved January 5, 1971, the Secret Service is required to "protect the person of a visiting head of a foreign state or government and, at the direction of the President, other distinguished foreign visitors to the United States and official representatives of the United States performing special missions abroad". For the fiscal year 1974, funds are requested to cover the additional travel costs being incurred in this program.

The Department of the TREASURY NEWS
BUREAU OF THE MINT WASH., D.C. 20220 - W04-5011

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FOR RELEASE 10:30 A.M., EST
MONDAY, MARCH 5, 1973

March 5, 1973

Mrs. Mary Brooks, Director of the Mint, made the following statement today:

Desiring to involve all Americans in recognizing the importance of our nation's Bicentennial in 1976, President Nixon has asked every government department and agency to cooperate in the celebration of this milestone anniversary of American Independence.

Secretary of the Treasury George P. Shultz, on behalf of the Department of the Treasury and its Bureau of the Mint, has sent a draft bill to the Congress providing for design changes on the reverse of two of our coins -- the dollar and the half-dollar -- honoring our 200th anniversary.

The proposed changes mark the first time in our nation's history that designs on circulating coins would be changed honoring an anniversary of American freedom.

The bill would permit appropriate American Revolutionary War designs to replace current designs beginning in 1976 and remaining on both coins for a period left to the discretion of the Secretary of the Treasury.

The dates 1776-1976 would also appear on both coins at the time of issue and be changed yearly thereafter until such time as determined by the Treasury Secretary.

The new coins would be struck at the Mints at Philadelphia, Denver and San Francisco.

To help generate public enthusiasm for a significant celebration of this landmark anniversary, it is planned to release the new coins for circulation on July 4, 1975. This advance issuance of coins dated for the approaching year of celebration would assure widespread distribution throughout the country and would permit the Mint to strike a larger number in anticipation of greater public demand for the coins for use as circulating mediums of exchange and for collecting as souvenirs of a momentous occasion.

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The early release date of the new designs applies only to the circulating cupro-nickel dollars and half-dollars and would be available, as is customary, at face value through the nation's banking system.

The 40% silver proof and uncirculated specimens of the dollar and the cupro-nickel proof and uncirculated versions of the dollar and half-dollar would be available during 1976 under the four special coin programs as presently conducted by the Mint.

The reverse designs of the dollar and half-dollar were especially selected for change to prevent disrupting the Mint's regular production capacity and to avoid causing a shortage of circulating coins due to coin collecting or other reasons.

The dollar and half-dollar are, of course, circulating coins but neither enjoys as wide circulation and use as the one cent piece, nickel, dime and quarter. The lack of wide circulation, therefore, will not be disruptive to the daily commerce of the country and the design changes will not strain the Mint's production capacity.

Because of the historical importance of the new designs, the Treasury Department has asked and the National Sculpture Society, 250 East 51st Street, New York, N. Y. 10022, has agreed to conduct a design contest among its nationwide membership, empanel a jury of experts to judge the entries and submit several designs for each coin to the Secretary of the Treasury.

The National Sculpture Society will formally announce the design contest at a later date.

Criteria for selection of the designs will include the beauty and historical significance of the designs and take into account the Mint's special technical and mechanical operations in reproducing the designs onto coinage dies that allow for maximum production on high speed presses.

The final selection of the designs will be made by the Secretary of the Treasury on recommendations from a committee composed of the Director of the Mint; the Chairman of the Senate Committee on Banking, Housing and Urban Affairs; the Chairman of the House Committee on Banking and Currency; the Chairman of the Advisory Committee on Coins and Medals of the American Revolution Bicentennial Commission and the Fine Arts Commission.

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A BILL

To provide a new coinage design and date emblematic of the bicentennial of the American Revolution for dollars and half-dollars.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the reverse side of all dollars and half-dollars minted for issuance on or after July 4, 1975 and until such time as the Secretary of the Treasury may determine shall bear a design determined by the Secretary to be emblematic of the bicentennial of the American Revolution.

Sec. 2. All dollars and half-dollars minted for issuance between July 4, 1975 and January 1, 1977 shall bear "1776-1976" in lieu of the date of coinage; and all dollars and half-dollars minted thereafter until such time as the Secretary of the Treasury may determine shall bear a date emblematic of the bicentennial in addition to the date of coinage.

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FOR IMMEDIATE RELEASE March 5, 1973

JOSEPH LOFTUS NAMED ACTING SPECIAL ASSISTANT FOR PUBLIC AFFAIRS AT TREASURY DEPARTMENT

Secretary of the Treasury George P. Shultz announced today the appointment of Joseph A. Loftus as Acting Special Assistant for Public Affairs.

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.

In addition to his Treasury duties, Mr. Loftus will aid the Secretary in his role as Chairman of the Council on Economic Policy and Assistant to the President.

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FOR IMMEDIATE RELEASE March 5, 1973

WITHHOLDING OF APPRAISEMENT ON
ELECTRONIC COLOR SEPARATING OR SORTING MACHINES
FROM THE UNITED KINGDOM

Assistant Secretary of the Treasury Edward L. Morgan announced today a withholding of appraisement on electronic color separating or sorting machines from the United Kingdom 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 machines utilize optical and photoelectric devices to sort beans, nuts, grains and similar items by color.

The decision will appear in the Federal Register of March 6, 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 December 1972 imports of electronic color separating or sorting machines from the United Kingdom were valued at approximately $500,000.

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FOR IMMEDIATE RELEASE March 2, 1973

TREASURY SECRETARY SHULTZ NAMES MAURICE B. MITCHELL
SAVINGS BONDS CHAIRMAN FOR COLORADO

Maurice B. Mitchell, Chancellor of the University of Denver, is appointed Volunteer State Chairman for the Savings Bonds Program by Secretary of the Treasury George P. Shultz, effective immediately. He succeeds the late Gerald P. Peters who was, until his death in mid-1972, a leading Denver financial consultant.

Mitchell will head a committee of state, banking, business, government, labor, and media leaders who -- in cooperation with the U. S. Savings Bonds Division -- assist in promoting Bond sales throughout Colorado.

Mitchell, born in New York City, began his professional career with the New York "Times". Subsequently, he headed a number of upstate New York newspapers, before joining the armed services during the Second World War. After the war, he began a career in broadcasting, holding executive positions with Washington station WTOP, the National Association of Broadcasters, and the National Broadcasting Co. He later headed the Muzak Corp. and Encyclopaedia Britannica Films. In 1962, he was named President and Editorial Director of Encyclopaedia Britannica Co.

Since becoming Chancellor in 1967, Mitchell has been active in civic affairs, state and national. He has served on the U. S. Civil Rights Commission under Presidents Johnson and Nixon. In addition, he is Chairman of the Denver Branch of the Federal Reserve Bank of Kansas City. He has been on a number of advisory boards to the Governor and Mayor of Denver.

Mitchell has been honored with a number of awards, including the Brotherhood Award of the National Conference of Christians and Jews. In 1969, he was named Colorado "Man of the Year". Mitchell and his wife, Virginia, have two sons, Lee and Keith, and a daughter, Debbie.

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FOR IMMEDIATE RELEASE March 3, 1973

RICHARD F. LARSEN
APPOINTED DEPUTY ASSISTANT SECRETARY FOR
DEVELOPING NATIONS FINANCE

Treasury Secretary George P. Shultz today announced the appointment of Dr. Richard F. Larsen of Grand Forks, North Dakota, as Deputy Assistant Secretary for Developing Nations Finance in the Office of the Assistant Secretary for International Affairs. Dr. Larsen will succeed John M. Hennessy who was appointed Assistant Secretary in June, 1972.

Dr. Larsen, 36, served as Lieutenant Governor of North Dakota from 1969-1972. Previous to this time he was a member of the N.D. State House of Representatives from 1965-1966 and the N.D. State Senate from 1967-1968. During this period he was also Commissioner from North Dakota to the Education Commission of the States from 1967-1970 and Chairman of the Business Advisory Council to the United Tribes Development Corporation.

Previous to his entrance in politics, Dr. Larsen taught business and economics courses at the University of North Dakota (1963-1965) and at Moorhead State College, Moorhead, Minnesota (1965-1967). Dr. Larsen was a cum laude graduate in Economics from Harvard in 1960 and received his Ph.D. degree in Economics from the London School of Economics and Politics in 1963. He also continued to teach at North Dakota University Graduate School of Industrial Management while he served in the State legislature and as Lt. Governor.

Dr. Larsen is a native of North Dakota. He is married to the former Christine Ellen Frawley of New York. The Larsens have two children.

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ATTENTION: FINANCIAL EDITOR

FOR RELEASE 6:30 P.M. March 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 December 7, 1972, and the other series to be dated March 8, 1973, which were invited on February 27, 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 June 7, 1973		:	182-day Treasury bills maturing September 6, 1973	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	98.534	5.800%	:	96.872 a/	6.187%
Low	98.495	5.954%	:	96.807	6.316%
Average	98.514	5.879% 1/	:	96.829	6.272% 1/

a/ Excepting one tender of $50,000
53% of the amount of 91-day bills bid for at the low price was accepted
53% 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	$ 21,630,000	$ 11,630,000	:	$ 15,085,000	$ 2,085,000
New York	3,004,460,000	1,991,460,000	:	2,760,020,000	1,558,520,000
Philadelphia	42,190,000	24,840,000	:	3,620,000	3,620,000
Cleveland	25,270,000	25,270,000	:	16,500,000	16,500,000
Richmond	22,030,000	21,680,000	:	15,430,000	11,080,000
Atlanta	20,410,000	20,410,000	:	9,910,000	9,910,000
Chicago	206,025,000	128,675,000	:	177,580,000	86,580,000
St. Louis	42,470,000	33,000,000	:	27,840,000	24,840,000
Minneapolis	24,390,000	24,390,000	:	21,615,000	13,615,000
Kansas City	28,615,000	21,615,000	:	23,135,000	21,135,000
Dallas	42,620,000	32,620,000	:	29,925,000	8,970,000
San Francisco	139,450,000	64,450,000	:	154,535,000	43,535,000
TOTALS	$3,619,560,000	$2,400,040,000 b/	:	$3,255,195,000	$1,800,390,000 c/

b/ Includes $208,270,000 noncompetitive tenders accepted at the average price of 98.514
c/ Includes $ 92,415,000 noncompetitive tenders accepted at the average price of 96.829
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 6.05% for the 91-day bills, and 6.57% for the 182-day bills.

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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
SUBCOMMITTEE ON INTERNATIONAL FINANCE OF THE
HOUSE BANKING AND CURRENCY COMMITTEE
TUESDAY, MARCH 6, 1973, AT 10:00 A.M. (EST)

Mr. Chairman and Members of the SubCommittee:

One week ago, I appeared before the Senate Banking Committee in support of this Bill (H.R. 4546), which is now before you, to authorize a 10-percent reduction in the par value of the dollar. I am attaching, for the record, the full text of my earlier statement, which gives the full background to the Administration's request for favorable action on this legislation. This morning, I intend to make a few supplementary comments to bring you up to date.

As you know, heavy speculative pressures developed in certain European foreign exchange markets over the past two weeks. In view of these pressures, those members of the European Community maintaining a fixed exchange rate have closed their markets, at least in the sense of ceasing

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official support for the exchange rate structure. The Japanese, who already had a floating rate, temporarily closed their market entirely. Several important European currencies -- sterling, the Swiss franc, and the Italian lira -- were floating before the latest disturbance. During the weekend, the Finance Ministers of the EEC have had discussions concerning recent developments and ways of concerting a response. We have been in contact with a number of leading countries during this period. Further meetings on an international level have been scheduled, including a meeting between the EEC countries and their Group of 10 partners on Friday.

There are several points I would like to reiterate with respect to the events of the past few days.

-- First, it remains our conviction that the basic realignment of exchange rates achieved in February is appropriate. That realignment provides -- insofar as exchange rate changes can -- a realistic base for restoring sustainable balance of payments equilibrium.

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The situation we face today is a consequence of a speculative outburst. We do not contemplate further devaluation of the dollar.

-- Second, we are prepared to work expeditiously with the European Community and our other trading partners toward achieving a speedy and satisfactory solution of this problem. We have been in close contact with them, and we will be meeting with them face to face in Paris later this week.

-- Third, recent developments re-emphasize once again -- if such emphasis is necessary -- the need to intensify the pace of our efforts toward fundamental reform of the international monetary system. In that respect, I believe, with intelligence and good will on all sides, we can turn the events of recent weeks to constructive achievement. We have been faced with two separate, but related, problems. We need to correct the underlying imbalances in international payments -- of the U. S. and

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of other countries -- that lie behind the monetary unsettlement and disturbance. The exchange rate changes are responsive to that requirement. We also need lasting arrangements to assure that these imbalances do not recur; that necessary international adjustments are made more effectively, smoothly, and surely in the future; and that our monetary arrangements contribute to open trade and payments among nations. This latter need is the task of monetary reform. We must achieve both objectives to assure that the international monetary system -- instead of intruding so frequently on our consciousness in an atmosphere of "crisis" -- becomes the unobtrusive handmaiden of a growing and prosperous world economy.

-- Fourth, and last -- but by no means least -- I want to reiterate emphatically that the strength of the dollar abroad is, in the last analysis, dependent upon the strength of the

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dollar and the strength of our economy at home. The Administration is deeply conscious of that simple truth. I believe our record reflects that concern. Indeed, in relative terms, our performance in restoring greater price stability stands out favorably among the major industrial countries. In absolute terms, we aim to do better. Budgetary, monetary, and wage price policies are directed to that goal.

In concluding, I urge the Committee to act soon and favorably on the legislation before you. In doing so, an important part of the process of ending uncertainty, restoring equilibrium, and working cooperatively with our trading partners towards a stronger monetary system will be completed. The realignment of exchange rates was necessary three weeks ago, and it remains necessary today. It required difficult decisions and action on the part of many other countries, as well as the United States. The legislation is essential to enable us to meet the legal and financial consequences of the exchange rate changes. More broadly, I hope you will agree

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the realignment of exchange rates will promote the best interests of American workers and producers, and passage of this legislation will help lay the base for further cooperation with other nations toward restoring balance in our payments and achieving needed monetary reform.

Attachment

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FOR IMMEDIATE RELEASE MARCH 6, 1973

Office of the White House Press Secretary

THE WHITE HOUSE

The President today established the East-West Trade Policy Committee and designated the Chairman of the Council on Economic Policy, George P. Shultz, to serve as its Chairman. The President also designated the Secretary of Commerce, Frederick B. Dent, to serve as Vice Chairman of the Committee and as Chairman of the Office of East-West Trade.

The members of the East-West Trade Policy Committee will be:

The Secretary of State (William P. Rogers)
The Secretary of the Treasury (George P. Shultz)
The Secretary of Commerce (Frederick B. Dent)
The Assistant to the President for National Security Affairs (Dr. Henry A. Kissinger)
The Executive Director of the Council on International Economic Policy (Peter M. Flanigan)
The Special Representative for Trade Negotiations (Ambassador William D. Eberle)

James E. Smith, the Deputy Under Secretary of the Treasury, will serve as Executive Secretary of the East-West Trade Policy Committee.

Negotiation of major trade initiatives will be handled under the Chairmanship of individuals to be designated for the specific negotiation. The President has designated George P. Shultz as Chairman of the United States section of the Joint US-USSR Commercial Commission.

A working group will be established under the Chairmanship of the Under Secretary of the Treasury and will include representation from the organizations on the East-West Trade Policy Committee.

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ANNOUNCEMENT March 6, 1973

As the Treasury Department announced yesterday, at the President's request, Secretary of the Treasury George P. Shultz will fly to Paris Thursday to take part in discussions on current international monetary problems.

Today we are announcing that following his stop in Paris, Secretary Shultz will continue on to Moscow, to discuss trade matters with officials of the Soviet Union.

The Secretary will be accompanied by a small working party.

He will be in Paris March 8 to 10, and will be in Moscow March 11 to 14. Following the USSR visit, Secretary Shultz will consult with several finance ministers in Europe as part of his preparations for the monetary reform talks scheduled in Washington by the Committee of 20, March 26-28.

The Secretary's itinerary for the visits after the USSR discussions will be announced when arrangements are complete.

We have also provided you with a release which indicates that the President has established the East-West Trade Policy Committee. The President has designated George Shultz as Chairman of the Committee and as head of the US side of the US-USSR Joint Commercial Commission.

I believe the release you have (attached) indicates the membership of the Committee, the designation of Secretary Dent as Vice Chairman and other details of the East-West Trade Policy Committee.

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FOR IMMEDIATE RELEASE March 6, 1973

DETERMINATION OF NO SALES AT
LESS THAN FAIR VALUE ON PIG IRON FROM BRAZIL

Assistant Secretary of the Treasury Edward L. Morgan announced today a final determination that pig iron from Brazil is 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 Wednesday, March 7, 1973.

A Notice of Tentative Negative Determination was published in the Federal Register on November 21, 1972. This notice invited interested parties to submit written views or arguments, or requests for an opportunity to present their views orally.

During the period of January through September 1972, imports of pig iron from Brazil were valued at roughly $4.9 million.

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Department of the TREASURY NEWS

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FOR IMMEDIATE RELEASE March 6, 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 15, 1973, in the amount of $4,202,855,000 as follows:

91-day bills (to maturity date) to be issued March 15, 1973, in the amount of $2,400,000,000, or thereabouts, representing an additional amount of bills dated December 14, 1972, and to mature June 14, 1973 (CUSIP No. 912793 QX7) originally issued in the amount of $1,901,630,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,800,000,000, or thereabouts, to be dated March 15, 1973, and to mature September 13, 1973 (CUSIP No. 912793 RU2).

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 12, 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 15, 1973, in cash or other immediately available funds or in a like face amount of Treasury bills maturing March 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.

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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 COMMITTEE ON FINANCE
ON THE EXTENSION OF THE INTEREST EQUALIZATION TAX
WEDNESDAY, MARCH 7, 1973, AT 10:00 A.M.

Mr. Chairman and Members of the Committee:

I am pleased to appear on behalf of the Administration to support the extension of the Interest Equalization Tax. Under present legislation, the IET would expire at the end of this month.

This tax was enacted in 1964 as a temporary measure, designed to help curtail our balance of payments deficit. Our continuing deficit has made it necessary to extend the Bill on four previous occasions. We believe that recent exchange rate actions -- accompanied by and combined with effective policies in other directions -- can, and will, and must bring that deficit to an end. But those actions cannot bring a cure to the deficit instantaneously. The hard fact is that no matter how forceful our policies -- and

I believe they are forceful -- it will take time for the more fundamental cures to work, and for our trade balance to recover. For the transitional period ahead, therefore, our payments position still needs the protection provided by the IET.

The IET sharply restrains the purchases by U.S. residents of securities issued by other developed countries of the world (with the exception of Canada) by imposing a graduated tax, currently equivalent to 3/4 percent per annum. By effectively raising the cost of U.S. capital to borrowers in the developed countries to a level more comparable with borrowing costs in their own countries, the outflow of portfolio capital from the United States is contained. Our experience with the IET indicates that it has been effective in those areas to which it applies. Moreover, the tax complements and supports the Commerce Department's program to restrain outflows of direct investment capital (FDIP) and the Federal Reserve's Voluntary Program to limit the export of funds by financial institutions (VFCR). These three programs are interrelated and mutually reinforcing.

As I suggested, we are pursuing policies, both at home and internationally, to bring an end to a payments deficit that has persisted for too long. So far as exchange rates are concerned, two exchange rate realignments -- one at the

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Smithsonian and again in February -- have, I am convinced, produced a fair and realistic base for repairing our trade and payments position.

We do not, and cannot, look to exchange rate changes to do the whole job. Competitive pricing, to be effective, requires that foreign markets be open to us. We must attend to the efficiency, productivity and price stability of the U.S. economy to maintain our competitive edge. The Administration has, as you know, been moving vigorously in these directions.

Our confidence that the steps we have taken and are taking will restore our basic balance of payments position is an important factor in our thinking that this is the last time we should ask for an extension of this legislation, provided the expiration date is set at the end of 1974.

The speculative atmosphere in international currency markets in the past few weeks does not disturb our basic conviction in that respect.

I would point out the currency movements which have occurred are not of the type that the IET is designed to impede or, indeed, is capable of impeding. However, it also seems obvious that this is not the time to permit this measure to expire. We continue to need the IET and the other programs of capital restraint in this period of transition and uncertainty in international monetary affairs.

We are now engaged in an effort to build a new international economic system. One of our objectives in that effort is to establish a cooperative monetary order in which the United States and other nations do not have to rely on controls to maintain balance. Our conviction on that score also underlies our expressed intent to phase out the IET by the end of 1974, along with the Foreign Direct Investment Program. However, the objectives of reform would not served by a precipitious dismantling of these restraint measures today. Instead, we must move by stages, consistent with anticipated improvement in our basic payments position. As we do so, we hope and expect that more foreign capital will be attracted to our markets, reflecting the positive attributes not only of satisfactory return, but of high liquidity and freedom from threat of official controls.

The IET extension Bill, as it was approved by the House, incorporates certain technical amendments which we are prepared to support. However, extension of the IET authority until December 31, 1974 rather than the date of June 30, 1974 provided

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in the Bill as passed by the House -- seems to us appropriate. This would bring the expiration date into line with the final "phasing out" date stated by Secretary Shultz for the existing restraint programs announced on February 12 in his statement on Foreign Economic policy. This date should provide us with an ample margin of time to accomplish the objective, without forcing action out of keeping with the development of our external position. At the same time, we have signaled our determination to achieve a payments position and a monetary system that can stand without this artificial crutch.

Attachments:
Four summary tables on the U.S.
balance of payments and
transactions in foreign securities.

* * * * * * * * *

TABLE I: BALANCE OF PAYMENTS SUMMARY TABLE, 1961 - 1972
(millions of dollars)

	1961-1965 Average	1966	1967	1968	1969	1970	1971	Jan.-Sept.* 1972	1972**
Merchandise: exports	23,011	29,287	30,638	33,576	36,417	41,963	42,770	47,391	48,838
imports	17,578	25,463	26,821	32,964	35,796	39,799	45,459	54,355	55,659
balance	5,433	3,824	3,817	612	621	2,164	-2,689	-6,964	-6,821
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	-14,607
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	3,667
Official reserve transactions balance (excl. SDR allocations)	-1,751	219	-3,418	1,641	2,702	-10,706	-30,482	-12,343	-10,940

* Seasonally adjusted, annual rate. ** Preliminary
1/ For detail see Table II.
Source: U.S. Department of Commerce, Survey of Current Business, December 1972 and earlier issues, plus Commerce News Press Release of February 14, 1973.

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TABLE II: PRIVATE LONG-TERM CAPITAL, 1961 - 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	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	-599
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	-1,250
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	4,443
Stocks	-7	-305	701	2,096	1,565	697	849	1,652	2,374
Bonds	67	1,214	315	2,292	1,547	1,493	1,433	1,947	2,069
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	148
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	3,844
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	

*Seasonally adjusted, annual rate. ** Preliminary
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, plus Commerce News Press Release of February 14, 1973.

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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.

March 5, 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.

March 5, 1973

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

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FOR IMMEDIATE RELEASE March 7, 1973

JOHNSON APPOINTED ENERGY
ADVISER AT TREASURY

William E. Simon, Deputy Secretary of the Treasury, today announced the appointment of William A. Johnson, 36, as Energy Adviser to the Deputy Secretary of the Treasury.

Johnson comes to Treasury from the Council of Economic Advisers where he served as a senior economist. Previous to that time, he worked as a senior economist for 8 years for the Rand Corporation.

Johnson, a native of Buffalo, N. Y., received his Ph.D. from Harvard in 1964. He did his under-graduate work at Syracuse University.

Johnson will advise the Deputy Secretary on energy matters, dealing primarily with the oil import program. Johnson also will serve as Chairman of the Working Group of the Oil Policy Committee, an inter-departmental advisory group which develops Government policy on oil imports.

Mr. Johnson lives with his wife and two children in Bethesda, Maryland.

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

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FOR IMMEDIATE RELEASE March 8, 1973

MEMORANDUM TO CORRESPONDENTS:

The Treasury Department today responded to a question that has arisen concerning the method of computing bond yields under its proposed arbitrage bond regulations.

Treasury said that in its proposed regulations it had used the Investment Bankers Association method of computing yields for reasons of convenience for issuers. However, it has come to Treasury's attention that certain disparities between the IBA method and the more accurate actuarial method of computing yield have been exploited in a manner designed to avoid the intent of the arbitrage provisions.

Accordingly, Treasury announced that hereafter the IBA method of computing yield may not be relied upon where the yield on governmental obligations and acquired obligations when computed under that method is significantly distorted, in comparison with true, actuarial yield, by use of "deep" discounts, premiums, the sale of bonds with a significant variance between coupon rates, the sale of bonds stripped of coupons, or other similar devices. In such a case, the IBA method may not be used and yields are to be computed by use of the actuarial method to determine whether a governmental obligation is an arbitrage bond.

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

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FOR IMMEDIATE RELEASE March 8, 1973

TREASURY ANNOUNCES ACTIONS ON
FOUR INVESTIGATIONS UNDER THE ANTIDUMPING ACT

Assistant Secretary of the Treasury Edward L. Morgan announced today Treasury's actions with respect to four investigations under the Antidumping Act of 1921, as amended.

In the first case the Treasury is withholding appraisement pending completion of its investigation, and in the other three cases antidumping investigations are being initiated.

These decisions will appear in the Federal Register of March 9, 1973.

In the first case Assistant Secretary Morgan announced that the Treasury is withholding appraisement on steel wire rope from Japan. This rope is used for many purposes including elevator ropes, winch lines, cranes, conveyors, and reinforcing heavy-duty tires for trucks. 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 withholding of appraisement. During the period of January through November 1972, imports of steel wire rope from Japan totaled approximately $6 million.

In the second and third cases, the Treasury announced the initiation of antidumping investigations on imports of hand-operated plastic pistol-grip liquid sprayers from Japan and Korea. This announcement follows summary investigations 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 sprayers from Japan were valued at approximately $147,000. Imports of these sprayers from Korea during the first two months of 1973 were estimated at approximately $80,000.

(OVER)

In the fourth case Mr. Morgan announced the initiation of an antidumping investigation on imports of mandelic acid from the United Kingdom. This acid is used as a primary ingredient for a pharmaceutical drug called methenanine mandelate, a urinary disinfectant. This announcement follows a summary investigation conducted by the Bureau of Customs after receipt of a complaint alleging likelihood of dumping in the United States. The information received tends to indicate that the prices of the merchandise offered for exportation to the United States are less than prices for home consumption.

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NATIONAL ASSOCIATION OF MANUFACTURERS

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JOINT POLICY COMMITTEE

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International Ballroom
Washington Hilton Hotel

Wednesday, March 7, 1973
1:20 o'clock p.m.

A speech by the Honorable George P. Shultz,

Secretary of the Treasury

MR. VENEMA: In any period of our history, the Treasury Department is one of the two spots in the Federal structure encompassing responsibility to many of the major areas we will continue to discuss during the two days of the Second Joint Policy Committee Conference.

The man who presently holds this spot is also Assistant to the President and is Chairman of the Counsel on Economic Activity.

We have an individual who accepts this kind of awesome responsibility, then the Nation is blessed with a public servant without parallel.

After distinguished undergraduate and graduate record, he embarked on a teaching career culminating in his appointment as Dean of the Graduate School of Business at the University of Chicago. During this decade of service in Chicago, that office became known to him, and it has been very privileged to observe this distinguished individual to continue to render tireless service to his university, his community, management and labor in many negotiating and arbitrating capacities, and now, to the nation and to the world.

No stranger to Government service, for in 1955, while on leave of absence from MIT, he was a staff economist with the President's Council of Economic Advisors. Then in 1959 he joined the Eisenhower Administration as a consultant to the Secretary of Labor. He was a member of the initial Nixon Cabinet serving as Secretary of Labor from the onset of the Administration until July of 1970 when he became the first director of the Office of Management and Budget, a position he held until he was appointed to his present post last June.

It's with a great deal of pride and pleasure that I present to you the Honorable George Shultz.

(Standing Ovation.)

SECRETARY SHULTZ: You mentioned my position within the Treasury Department and you might be interested to know about the reactions of my two youngest children to that. I told them about it the day it was announced and they went off to school not knowing quite what that was going to mean, and they got the word in school. My daughter got home in tears and she asked her mother, she said, what's the matter with

Daddy? The President keeps moving him around. He doesn't move the other Cabinet members around.

(General laughter.)

SECRETARY SHULTZ: My youngest son is a coin collector. He's a bit of a miser, saving money and so on. He immediately discovered from his schoolmates the Secretary of Treasury signs dollar bills, and maybe they could bring some around and get them signed.

(General laughter.)

SECRETARY SHULTZ: He thought it was good job.

I think sometimes when we're working in the job, and you're all caught up in what you're doing, as we all are, oftentimes little things that happen in your own family help to put a little perspective on the whole thing. I know that a couple things that happened to me in connection with the exchange crisis of about three weeks or so ago -- these things always seem like distant history because there's so much in between, but after working on that very hard throughout the week and nights and so on, we finally finished and announced what had happened in a press conference at the Treasury, and later fielding phone calls, and I went home about 12:30 in the morning, and my wife was there. That was the day that the POW's, the first POW's hit Clark Field.

And my wife was there and she greeted me. She said, have you been watching television today?

(General laughter.)

SECRETARY SHULTZ: I said, no, I haven't been watching television today. She said, well, you should have been. It was one of the most emotional experiences that I've had watching the men come off the plane. It was just terrific. She described to me all the things that had happened, and she went on and on and on sitting there, and finally she said, by the way, what's going on with your monetary thing.

(General laughter and applause.)

SECRETARY SHULTZ: At the same time I think the sense of peace makes such an impact on us, and I know it is hard for us to appreciate, after all those years, that we're moving into an era of peace, and we don't quite believe it.

And I think along with many other things the POW's have been doing for us, when we see them coming back that makes it sink in a little bit more, and as more come back it will sink in further. When they are all finally back, people will begin to believe it. This seems to me to be a factor that will sink in our society, our economic life, our political life. It's going to be a very powerful and positive effect, of course.

The other thing that happened to me in connection with that same set of problems that kept me away from home over the weekend and so forth was a comment made by my 20 year old son who hasn't paid much attention to all this. He has

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long hair and he's a very serious, fervent young man. As he was going out the door the next morning, as I was getting up bleary eyed, he said, by the way, he said, if you really want to know why we don't buy, speaking of himself, why people don't buy more American products, it isn't because of what you are doing. People got to make those products better, and then they'll buy them.

I felt, coming from him, that was a nice little insight, that as we address our problems at home and abroad, we need to recognize that it is a competitive world and we need to look at the quality of what we do. We need to look at how we manage. We need to look at comparative cost, providing good services and so on.

That was sort of an instinctive insight of that one young person that seemed quite to the point.

I'd like to introduce my comments with a little story about a person who had been given an appointment and was in the midst of the people that he got the appointment from and that he was going to work with, and said that it was gratifying to him to have that appointment and was gratified that they had thought of him, but the people that he was going to be working with might be interested in what some of his friends down in Maine where he was from thought of it. And then he said that two of them were sitting by the radio when the appointment was announced, and they were commenting to each

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other about it. This man's name was Beamis. He was a meteorologist, and he said, one old codger said to the other, you know, that Beamis is one of the smartest fellows that ever went through our school system here. That's right, he's an awful smart fellow and he just acquires information and knowledge like a sponge. He never forgot anything. He just learns more and more all the time. He knows everything.

And the other fellow took a suck on his pipe, brought back and said, that Beamis, he knows everything but he don't realize nothing.

(General laughter.)

SECRETARY SHULTZ: I think in this world if you can make policy -- somehow or another we're always having to go back and forth and hope that we're able to do it reasonably successfully -- between what you know and what you realize, and on the one hand to recognize the power of the logical argument as it is developed, and we need to look at logical arguments in their purity, so to speak, and at the same time to allow them to get surrounded with other work as the other work of the world gets done so that you don't get polluted into thinking that there isn't a lot that has to be realized.

I think that one of the things that we both know and realize is that everything in the economic sphere, everything is related to everything else. We know that and we learn about that as we study the subject. But it never becomes more clear than when we are somewhere near achieving the goal that we set in economic policy, namely, to have prosperity with reasonably stable prices in this time of peace, and when we get somewhere near that goal, then we are much more clear in our minds that some singleminded objective like expand your economy at all costs or something like that is not enough.

We have to be thinking of all the complexities of the interrelationships between different aspects of policy.

So, as we consider a major expansion, we look at the picture from that point of view, and also from the point of view of reining it in order to have it significant with reasonably stable prices. We see the ricochet between what happens to food prices and what we can expect by way of wage settlement and what may go on in international markets. These things just ricochet around, one to the other.

That is always the case, but when the economy is operating right up near full capacity, the interrelationships are strained and ever-present.

So, I think we must proceed and we are trying to proceed in the Administration with a sense of these relatioh-ships, and while we are fielding lots of problems these days, they are in some ways good problems in the sense that they are the kinds of problems that you have to cope with in trying to manage the economy when it is operating at this extraordinary level.

Now, under the theme of everything is related to everything else, it may very well be that you will expect me to say a great deal here about international monetary development. I prefer not to, to save my comments for the meeting that's coming up here and saying that we are going to this meeting in a spirit of cooperation, in the spirit that we are discussing a common problem that we want to resolve and keep resolving in a manner that is as consistent as it possibly can be, item by item with the goals of long term monetary, international monetary cooperation that we speak.

That is the spirit that we are taking the effort in going to Paris and beyond.

Having said that, let me pick out a couple other things that are interrelated and talk about them. There's a great deal of discussion now about Phase III. Poor Phase III has been kicked around quite a lot. People are evaluating it and wondering whether it is a strong program or a weak program or what kind of program it is.

I think it is well summarized as anything by a comment that Herb Stein, Council of Economic Advisors made, that it will be as mandatory as it must be, and voluntary as it can be. That is the spirit with which it is being administered but it is also being administered in a spirit of attention to the fundamentals. That is what I would like to emphasize first and foremost here.

If you study the relationship between the experience with inflation, country by country in the free world, and the extent to which income policies of various kinds are used, you see an interesting relationship -- it's not on an absolute one to one basis, but does seem to be true more or less -- that the more a country uses income policy, the worse its experience is with inflation.

I think there is a very simple explanation for that, and it doesn't have to do with the inherent goodness or badness of the mechanics of the income policy, rather, it has to do with the tendency that people have to say, once we have this wage-price policy or whatever it is called, that represents our solution to the problem of inflation. And having that solution at hand, we thereby can go ahead and do all kinds of extravagant things with our budget, and our fiscal policy, and our monetary policy. We don't have to discipline ourselves in those areas anymore because we've got the problem solved by this mechanism over here.

I think the history of events shows very clearly that over any period of time the fundamentals must be tended to in a way that is consistent with your basic goals. I think that we have got some knowledge out of our efforts in wage and price control, and I think that we can continue to get knowledge out of them in Phase III, but they will only deal with the kind of result that we want if we are able to pay attention, really pay attention to the fundamentals of monetary, fiscal policy.

Now, I think on the subject of fiscal policy, budget policy, I have some positive things that I would like to say and I have some negative things that I think should be pointed up. I believe that we have made a tremendous amount of progress in this area, say, over the last six or eight months particularly.

If you remember six or eight months ago, the conviction was very general that the Federal budget was out of control, and we had studies from reputable research organizations, studies made by wholly professional people who really knew what they were doing, and people of varying political persuasions, and we all came pretty much to the same conclusion, that the budget was out of control and were assuming later that there was going to have to be a tax increase.

And I think that probably your own economists perhaps told you the same thing, and it was a very uncomfortable feeling.

The President didn't accept it. The President decided that $250 billion in fiscal '73 was enough, an $18 billion increase from fiscal '72 to fiscal '73 was enough and that we should be able to live as we move into fiscal '74 within the framework of the revenues our tax system would produce, and that would be enough.

And furthermore, he took the trouble to project on to fiscal '75 to see the implications of the things that are going on and whether or not the implied form of expenditure could be contained within the revenues that our system produces without a change in tax rate, and satisfied himself that it could be done and satisfied himself that it must be done, and worked at that.

This is one of the most dramatic turn arounds in thinking about a fundamental of economic policy that we've seen in some time, but now-a-days people accept the fact that we are going to hold outlays in fiscal '73 to $250 billion instead of the $261 million or so that was implied by a no contraint situation, and that we should, and when we can moderate and discipline the outlays of the Federal budget.

I think that is a very positive achievement. It shows what a determined President can do when he concentrates on something and really goes into it. There hasn't been this great turnabout such that we can say that there is no need to increase the tax rate for the American people. There is no need to dip in further into the taxpayer's pocket and take more out of it.

To a degree I would say that we have one more battle in terms of the outlook that people seem to have, and I have healthy experience from testifying before a wide variety of committees of Congress. It seems to me that I ought to have an office on the Hill I spend so much time there testifying in one way or another, but I have learned from that and I have welcomed the opportunity, but it has been very interesting to me to see in all this testimony that very few -- I don't really remember any -- people challenging the appropriateness of holding these outlays under control. Everybody is on board.

Now, there is a problem of how you do that, and what the right priorities are, and so on, but in the acceptance of the fact that somehow or another, we must figure out how to discipline ourselves with the most appropriate totals.

Now, I hope that having won this battle on the broad front, we don't wind up having it nibbled away from us kind of bit by bit as we go along. So I think that we now must pay attention to all the individual things that go on and keep reminding ourselves, both in the Executive Branch and the Legislative Branch that we must have some means of going back and forth between the individual items which always seem small; in comparison with the $250 billion, what's another $100 million? That kind of attitude that we get into.

Since coming to Washington, I'd say I have learned what .3 really means. It means $300 million.

(General laughter)

We get very careless about this kind of thing, even those little sums do add up if we have enough of them. That is what we have to pay attention to now. So in fact, we maintain the integrity of these totals that people always accept as the appropriate totals.

But in any case I think attention is being paid to fundamentals so that I believe this gives our Phase I, Phase II, Phase III efforts at using income policy in a creative national way a maximum chance for success.

Second, as far as fundamentals are concerned, we all recognize our belief, certainly we recognize -- the President recognized in his announcement of Phase III that food prices were a critically important variable in the whole process, so that we must somehow bring food prices under control, whereas a lot of other things were going to unravel.

This again is just an illustration of this notion of everything related to everything else. This is one major item that is in everybody's life and is understandable.

So, from the beginning we have concentrated on that subject and I believe that the Phase III program in the area of food prices is a much more powerful and concerted attack on the problem, than under Phase II or that we have seen in some period of time.

The attack on the economy is not limited by any means to the maintenance of mandatory controls on the food processing and distribution industries, although I think that we can get a lot of mileage out of what we are doing. We have a first-class advisory committee from the industry representing different segments of the industry and representing labor and management, agriculture and so on, and we hope to work cooperatively with them.

There have been identified a number of potentially very important ways in which the productivity of the industry can be improved, thereby throwing costs down, and there is a real will and desire to work at these things and accomplish something. So that is one area of work.

It leaves us an important -- or I would say, more important -- area, that is the work on agricultural policy. And the efforts to meet the problem, and the only way that it can be met, is by increasing the supply of food products.

As you know, we have expanded acreage by a very large amount. We are selling stocks, knowing that we are expanding acreage, and we will have a large output. We are selling stocks now. We are inviting you to invest in your country, particularly meat.

We are allowing grazing on set-aside acres and we are doing a whole variety of things of this nature that are of a fundamental sort and that will pay off.

Now, there is a certain amount of scepticism that

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these fundamental things will pay off and those of you who are sceptical, I invite you to have somebody -- get up for yourself, grasp a price for some particular commodity, I'd say soybeans which have been a matter of great importance. Somebody suggested that we should settle the monetary crisis where the price of a pound of soybeans reaches the price of an ounce of gold we would be all set; we could go on a soybean standard.

But if you take that commodity, or you take any other commodity and you plot the off-the-spot price and the future price for a month later and a month later and so on and you get down towards the end of the year, what you see in most of these commodities is a declining line. In other words, the future price is less than the spot price and often by quite a lot.

That is not true across the board, but it is true for the bulk of farm products, and I think it reflects the power of these rules that have been made. For here again, I think we have paid attention to something that is critical in making something work.

Now, beyond that, of course, we have the notion of the self-administered system of restraint. Pete has been one of our advisors. We have called on him to meet with us and if all these different programs should be changed around, I know the NAM attitude. You are a free enterprise organization, you don't believe in wage and price controls. It has been alleged that I intend to share that view, and I do, although I also think I try to learn as I go along here in Washington. I think that you can get something out of this wage and price business, and we have, and we will.

But we are in a program of self-administration. It's self-administration in the same sense that your income tax is a self-administering system. There are rules that are probably no less confusing that the income tax rules. You can them, they are rather similar to what you have worked with, in fact, in most cases, are identicial with which you've worked with in Phase II. So there they are.

And we're saying let us have self-administration rather than bureaucratic administration, and at the same time reserve the right where we believe it is called for by out-of-line behavior or called for in order to give us reassurance that the situation is being watched and is being moderated. We can move back into the monetary control area and we would and we would have no hesitation about that where we think it is called for and where we think that is feasible.

But fundamentally, in all of this effort to have people, to ask people to practice restraint, you go on the basis of the spirit of voluntarism in working on a problem that people see and share and agree to work on together.

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That was the spirit in which Phase I was put forward and that is the spirit which made it work, and Phase II and Phase III is no different in that respect.

So I would like to close by saying that I realize what a powerful organization the NAM is, I realize what a constructive organization it is. It is interesting for me to see how the process in which your statements are developing, how broadly representative they are. So I welcomed particularly the chance to give this message and give this appeal to you, an appeal that says, we are trying to get ourselves to prosperity with reasonably stable prices.

We are making use as creatively as we can the tools of income policy. We are paying attention to the fundamentals: we haven't forgotten about supply and demand; we haven't forgotten about monetary and fiscal policy. But we are also asking that everybody exercise a little bit of moderation and everybody exercise a little restraint, and if we do, we think we can get there from here.

Thank you.

(General applause.)

(Whereupon, at 1:50 o'clock p.m., the speech was concluded.)

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Department of the TREASURY
NEWS
OFFICE OF REVENUE SHARING
WASHINGTON, D.C. 20220
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TELEPHONE W04-8711

FOR IMMEDIATE RELEASE

March 9, 1973

MEMO TO CORRESPONDENTS:

Treasury Secretary George P. Shultz has sent the attached letter to the Members of Congress reporting on the progress of the general revenue sharing program since the "State and Local Fiscal Assistance Act of 1972" was signed by President Nixon in Philadelphia on October 20, 1972.

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THE SECRETARY OF THE TREASURY
WASHINGTON 20220

March 1, 1973

Dear Mr. President:

The "State and Local Fiscal Assistance Act of 1972," which establishes the program of general revenue sharing, requires by March 1 an annual report to the Congress on "the operation and status of the Trust Fund during the preceding fiscal year." The first such report will be made on schedule by March 1, 1974.

In consideration of the wide interest in general revenue sharing, still a new program, I'm taking this opportunity to report to you our progress since the Act was signed by President Nixon on October 20, 1972, at Independence Hall in Philadelphia.

The Office of Revenue Sharing has been created within the Office of the Secretary. Mr. Graham W. Watt, who has had a distinguished career in municipal government since 1950, was appointed Director on February 1, 1973, succeeding Mr. Edward Fox who, while on loan from the Federal Home Loan Bank Board, directed our early efforts. Staff, now numbering 36, has been assembled, and the operations are newly located at 1900 Pennsylvania Avenue.

Working in closest cooperation with the Bureau of the Census, more than 250,000 elements of data (population, income, tax effort, etc.) were compiled and recorded on our computer tapes for use in computing entitlements for 40,131 units of government qualified for general revenue sharing payments. A complete mailing address verification and a special census to update tax effort data were completed.

The first payments were made December 11, 1972, and a second payment was dated January 8, 1973. Supplemental payments, including 1972 entitlements for Indian tribes and Alaskan native villages, were made February 12, 1973. In all, 73,481 payments have been made to date, totaling $5,142,840,000.

Office of Revenue Sharing and other Treasury Department staff have participated in 60 meetings and workshops held all around the country to familiarize local and state officials with the details of the general revenue sharing program. Literally thousands of mail and telephone inquiries have been processed by the small staff, and the workload in this area continues to be high.

Interim regulations were published and updated to cover the 1972 entitlement payments. Proposed final regulations, drafted in close cooperation with the representatives of the States, counties and cities, together with the Advisory Commission on Intergovernmental Relations, the Office of Management and Budget, and the General Accounting Office, were published for comment in the Federal Register on February 22, 1973.

All jurisdictions have been individually advised of the elements of data used by the Office of Revenue Sharing to compute their entitlements and approximately 3,800 (less than 10 percent of the total) of the jurisdictions have requested a review of one or more of their data elements. This process, which involves an extensive commitment by the Bureau of the Census, is presently under way.

Each State and local jurisdiction has been provided a statement of the assurances which the Act requires be made by the Chief Executive prior to the next payment which is scheduled April 6. Signed assurances are being returned in increasing quantity at this time.

The Office of Revenue Sharing is developing the compliance system needed to carry out the audit and evaluation responsibilities established by the Congress. Complex computer systems are being reviewed and improved and new management information systems to produce data needed to assess the quality of the program are being initiated.

New efforts to improve information flow to and from the recipient governments are now in planning, and the Director proposes soon to launch new efforts to broaden general knowledge of the general revenue sharing program's purposes and philosophy.

It is now about four months since general revenue sharing was made law. Much has been accomplished and this accomplishment has been characterized by its high quality and by the

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small size of the staff which produced it. I believe you will agree with me that our early progress presages a good future for this most vital domestic assistance program.

Sincerely yours,

George P. Shultz

George P. Shultz

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

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

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FOR IMMEDIATE RELEASE MARCH 9, 1973

TREASURY RELEASES REPORT ON
BLOCKED CHINESE ASSETS

Blocked Chinese assets in the United States were valued at $76.5 million, as of July 31, 1970, according to a census conducted by the Treasury Department's Office of Foreign Assets Control which was released today.

The $76.5 million is less than the $105.4 million in assets reported in a similar census conducted in 1951.

The information gathered in the earlier census was no longer current due to a number of factors, which also contributed to the variance in dollar amounts. For example, $35.5 million has been released under licenses issued by the Treasury to persons leaving the Peoples Republic of China and taking up permanent residence in the United States or other non-communist countries. Also, increases and decreases in the values of blocked securities, accruals of dividends and blocking of an additional $11 million have contributed to the change.

The current census results reveal that the majority (90%) of the blocked assets ($68.7M) consists of bank deposits and securities. The remaining assets consist principally of debts to nationals of the Peoples Republic of China ($5.9M), and property such as insurance policies, estates, ($1.9M) etc. Blocked assets held for official Chinese agencies total $20.2 million.

Copies of the census report are available from the Office of Foreign Assets Control, Treasury Department, Washington, D.C. 20220, and from the Foreign Assets Control Division, Federal Reserve Bank of New York, 33 Liberty Street, New York, New York 10045.

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TREASURY DEPARTMENT
OFFICE OF FOREIGN ASSETS CONTROL
1970 CENSUS OF BLOCKED CHINESE ASSETS
IN THE UNITED STATES

Office of Foreign Assets Control

TREASURY DEPARTMENT
OFFICE OF FOREIGN ASSETS CONTROL
1970 CENSUS OF BLOCKED CHINESE ASSETS
IN THE UNITED STATES

I. Background of Census

When military forces of the People's Republic of China entered the Korean War on December 14, 1950, President Truman declared a national emergency. Acting under the authority of Section 5(b) of the Trading with the Enemy Act, 1/ the Secretary of the Treasury issued the Foreign Assets Control Regulations on December 17, 1950. The Regulations constituted a complete embargo on commercial and financial transactions with the People's Republic of China (hereinafter referred to as China), North Korea, and nationals thereof wherever located and in addition, they blocked all Chinese and North Korean property in the United States. 2/ Simultaneously, the Department of Commerce embargoed all exports from the United States to China under the authority of the Export Control Act of 1949.

Immediately following the issuance of the blocking regulations, a census of Chinese and North Korean blocked property was undertaken in early 1951 by the Treasury. 3/ Its purpose was to provide information with respect to blocked Chinese assets to assist in the formulation of licensing and other policies relating to these assets. 4/

The freeze on transactions with China and its nationals continued substantially unchanged until the spring of 1971 when, pursuant to President Nixon's April 14, 1971 announcement of an impending relaxation of United States controls on trade with the People's Republic of China, Treasury and Commerce removed most restrictions on current non-strategic transactions with China. The Treasury blocking restrictions continue to apply, however, to all Chinese property blocked prior to May 7, 1971.

In the interim, a second census of Chinese assets was undertaken in June, 1970, seeking current information with respect to the status of the blocked assets. In the nineteen years since the 1951 census, many changes in the blocked assets had occurred due to appreciations and depreciations in property values, and also to authorized changes

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1/ 50 U.S.C. App. 5(b)
2/ 31 CFR Part 500. The Regulations were extended to North Viet-Nam on May 5, 1964.
3/ The census also included assets of Taiwan and South Korea although those assets were not blocked.
4/ As a practical matter, there were no North Korean assets in the United States which could be blocked. The Regulations effectively preclude trade with North Korea.

in the forms of property. Decreases had also resulted from the unblocking of assets under licensing policies which permit the release of blocked property in situations which are not considered harmful to American interests. On the other hand, increases had occurred as the result of new blockings instituted on an ad-hoc basis, pursuant to Foreign Assets Control enforcement actions. Changes in the physical location of property had also occurred, e.g., accounts had been transferred to holders other than the original reporters. New interests in blocked property had arisen by reason of the deaths of nationals whose property had been reported. Many reporters had changed their addresses, merged, liquidated, or simply disappeared. In view of these numerous changes, and in anticipation of some form of relationship with the People's Republic of China, it appeared desirable at that time (mid-1970) to bring the 1951 report up to date. Among other considerations, it was believed that current information would be helpful in connection with any future consideration of a settlement of American property claims against the People's Republic of China.

II. Results of Census

A. Total Blocked Assets

The total of all blocked property valued as of July 1, 1970, for which reports had been received by July 31, 1972, is $76.5 million. At the outset, it should be noted that the census is not complete, and the final figures will show some changes. These will, however, be relatively minor and will not significantly affect the results.5/

70% of the assets, valued at $53.2 million, consists of deposits held by banks in the United States. $23.6 million of these deposits is held by American banks for foreign banks who in turn hold corresponding dollar accounts for persons in China. $18.3 million is held by American banks directly for China.

5/ 86% of the assets reported in 1951 have been accounted for. Work is continuing to secure reports from persons who failed to file when required, and to obtain corrections of erroneous reports. It is anticipated that the unfiled reports will consist mostly of accounts which were released to the owners by the custodians either with proper Foreign Assets Control authority, or which would have been authorized to be released if a license had been applied for. Accordingly, the final figures will probably not differ substantially from those in this report.

The second largest category of assets, \$15.6 million or 20% consists of securities held by banks and brokerage firms. \$10.6 million of this total is held for individuals in China.

B. Assets Classification

1. Classification of Assets by Type of Assets6/

	Amounts (dollars)	Percent of Total
Bank Deposits	\$53.2 million	70%
U.S. \$ Securities	\$15.5 million	20%
Notes, Drafts, Debts	\$ 5.9 million	8%
All Other Types	\$ 1.9 million	2%

2. Classification of Assets by Type of Owner7/

	Amounts (dollars)	Percent of Total
People's Republic of China	\$20.2 million	26%
Assets Held through Third Country Banks	\$23.6 million	31%
Individuals	\$15.2 million	20%
Corporations, Partnerships, Unincorporated Associations	\$14.6 million	19%
Others	\$ 2.9 million	4%

a. People's Republic of China, Agents and Instrumentalities thereof

Reports totaling \$20.2 million were submitted representing funds belonging to the People's Republic of China, its agents or instrumentalities.

6/ See Appendix I
7/ See Appendix I

This figure includes those persons and firms located in non-Communist countries who are "Designated Nationals" because they are agencies of the Chinese Government. It also includes firms located in China which are obviously under Government control, e.g., banks and state trading firms.8/

Of the $20.2 million classified above as PRC-owned, $18.3 million is in the form of bank deposits. Most of the remaining $1.9 million is divided between "notes, drafts, and debts" and "dollar securities." Of the seventy-two state-owned firms whose property is reported under this category, thirty-five have accounts valued at over $100,000, totaling $18 million of the $20.2 million in this category.

b. Third Country Banks

The census reports show $23.6 million under the heading of "third country banks." This represents U.S. dollar accounts held by banks in the United States for foreign banks, in which accounts China, or a national of a third country who is an agent for China, has an interest. Nearly all of this property is held in the form of bank deposits. Fourteen of the accounts9/ were valued at over $100,000, for a total of $23 million. This category is separately reported because these assets consist of property in which not only China, but also a bank in a non-Communist country, have an interest. In most cases, the banks are obligated to pay the assets to the People's Republic of China or its agencies, if unblocked.

8/ Since most of the private property and external assets of persons and firms in China have been nationalized, it is possible that all property of persons and firms in the People's Republic of China could properly be classified as government-owned. For census purposes, however, the classification assigned by the American holder of the assets was followed, except where the reporter had obviously placed the Chinese national in the wrong category.

9/ Branches of foreign banks were reported separately.

c. Individual Accounts

The assets in the United States of individuals in China total $15.2 million. The majority of these accounts fall within the $1,000 - $10,000 range. Thirteen accounts were valued at over $100,000 for a total of $5.4 million. $10.5 million of the $15.2 million in this category is held in the form of U.S. dollar securities. Most of the balance is held in the form of bank deposits.

Of the total of $15.2 million in individually-owned property, $6 million was reported as owned by persons who are residents of a country other than China. Most of these persons are residents in Hong Kong. It is the policy of the Control to unblock the assets of Chinese nationals who have left China and taken up permanent residence in a non-Communist country. A substantial amount of this $6 million may belong to persons who are eligible for unblocking under this policy.

d. Corporations, Partnerships, Unincorporated Associations

The census total includes $14.6 million reported for this category. Of this amount, $13.3 million is held for corporations. These accounts are evenly divided between accounts under $10,000 and those over $10,000. Twenty-four of the latter are valued at over $100,000, for a total of $12 million out of the $14.6 million reported in this category. The $14.6 million total includes bank deposits valued at $6.7 million, "notes, drafts and debts" valued at $4.5 million and U.S. dollar securities valued at $3.3 million.

$6 million is held for corporations which are not located in China. Of this, $2 million is held in the name of firms whose head office is in China or whose controlling stockholders are residents of China. The other $4 million is held in the name of a single corporation in China which is 99%-owned by Americans. The firm is blocked because its principal place of business is in China. No Chinese nationals own stock in the parent corporation, and under present policies the assets are eligible for unblocking.

3. Description of Reporters

3,292 reports were filed by 179 reporters. One-third of these reporters are domestic banks and the remaining two-thirds are composed of other business, law firms, insurance companies, etc. About one-half of the reporters are in New York City. It is interesting to note that 91% of all assets reported, (or $69.5 million) is held by nineteen reporters, principally banks.

4. Claims Against Blocked Assets

The total of all reported claims against blocked assets is $12 million. These claims include offsets against losses on cargo; bank and other liens; creditors' claims for services rendered; etc., as well as claims by heirs and other beneficiaries of blocked decedents' estates.

The breakdown of claims by country of residence of claimant and type of claim is:

Country	Adverse Claim	Other Claim
USA & Non-Communist Countries	1.9 million	.2 million
Taiwan	9.6 million	
PRC	.1 million	.2 million

Of the $2 million in claims asserted by residents of the United States and other non-Communist countries (except Taiwan); $200,000 is a lien asserted by a third country bank against blocked accounts held by it for Chinese firms in Hong Kong.

The claims asserted by the Government of the Republic of China (Taiwan) are against funds held primarily in the name of a bank in New York for its branches under People's Republic of China control. The claims asserted by the People's Republic of China are against funds held primarily in the names of third country banks and in the names of Government of the Republic of China (Taiwan) agencies.

No attempt has been made to verify the validity of any of these claims.

III. Problems Affecting Validity of Results

Various problems were encountered in taking this census which have a direct effect upon the completeness and accuracy of the results.

The initial difficulty was to locate all the reporters who had reported assets in 1951. During the twenty years since the 1951 census was taken, many firms had merged with other firms, dissolved, gone bankrupt, or simply disappeared. To date, 86% of the property reported in 1951 has been accounted for. Efforts are continuing to secure current information with respect to $14.7 million for which 1970 census reports have not been received. 10/

The second problem encountered was the difficulty reporters had in retrieving records, and the loss or destruction of their records regarding the disposition of blocked funds. As explained in Section V(C) (9) particular attention has been given to reconciling any discrepancy between the amount of funds reported in 1951 and the amount currently held by reporters. In many instances, reporters no longer hold blocked accounts and no longer have records regarding the disposition of these blocked accounts. Accounts which have been improperly released by the reporters (i.e., released without a Foreign Assets Control license), are required to be reinstated. However, where a reporters' records were missing, the Control has searched its files and has been able to resolve a substantial number of these cases. In most instances the funds had been released without the requisite license. However, many of these cases involved accounts of persons who had left China and taken up residence in a non-Communist country. It is the policy of the Control to license as unblocked the accounts of persons who have left China to take up permanent residence in a non-Communist country provided they did not leave close relatives in China. Accordingly, reinstatement is not requested in cases where it is evident a license would have been issued if applied for. In other cases, funds had been transferred from one person to another and the new holder had not reported the property in the census.

As of July 31, 1972, the Control still had 270 cases of incomplete reports involving $4.4 million of blocked funds which were reported as unblocked, without any authority for the unblocking being specified by the reporter in the census report.

10/ Cf. footnote 5

IV. Comparison with the 1951 Census

The total value of all assets reported in 1951 was $192.1 million, (letters of credit were not included in this total[11]). $71.1 million was owned by persons in Taiwan and $15.6 million by South Korean nationals. No reports regarding property of nationals of Taiwan or South Korea were required under the 1970 census.

Of the remaining original $105.4 million, $90.8 million has been accounted for and $60.8 million of this remains blocked. $35.5 million of the $90.8 million was released under licenses issued by the Treasury leaving a balance of $55.3 million in 1951 values. However, the current value of these assets is $60.8 million rather than $55.3 million. The difference is accounted for by both appreciations and depreciations in the value of blocked accounts with a net appreciation of $5.5 million or 9%. An additional $10.8 million was blocked subsequent to 1951 through various Foreign Assets Control enforcement actions and is included in the 1970 census. Its value as of the 1970 census was $15.7 million. Adding this amount to the remaining $60.8 million of the original total gives the current total of $76.5 million.

One noticeable difference between the 1951 and 1970 censuses is in the category of property classified as belonging to the People's Republic of China. This figure was $6.5 million in 1951; it is $20.2 million in the 1970 census. The difference is accounted for by the Control's decision in processing the 1970 reports to classify accounts of Chinese banks as owned by the People's Republic of China, rather than as privately-owned.

11/ Letters of credit, valued at $25.9 million, opened by an American importer in favor of a Chinese exporter were not included in this 1951 total because they were in effect only temporary Chinese assets which would become valueless within a short period of time if they were not used. The 1970 census results confirm that most of these letters of credit expired unused. In those cases where goods were on the high seas on December 17, 1950, and drafts were presented for payment to a mainland Chinese bank, the Control licensed payment into a blocked account in a domestic bank in the name of the Chinese bank. These funds are included in the 1970 census under the appropriate property type. In those instances where goods were on the high seas on December 17, 1950, and a foreign bank which had already negotiated drafts under the American bank's letter of credit forwarded such drafts to the American banks for payment, the Control licensed the payment to the foreign bank in unblocked funds.

V. Census Procedures

A. Authority for the Second Census

The reporting requirements were issued as Section 500.610 of the Foreign Assets Control Regulations (31 CFR 500.510) under the authority of Section 5 of the Trading with the Enemy Act (50 U.S.C. App. 5(b)) and were published in the Federal Register on August 18, 1970, (31 F.R. 13124).

B. Publication and Distribution of Reporting Requirements

Public announcement of the census was made on August 17, 1970. The reporting requirements were publicized through the Federal Reserve Bank, and through banks and other financial institutions. Copies of the census report form (Form TFR-610) and copies of a pamphlet containing the reporting requirements and instructions were sent by the Treasury Department to all persons who reported on the 1951 census; to all persons on the Control's mailing list of the persons known to be interested in the blocking regulations; and, to others whom there was reason to believe might be holding blocked Chinese assets. The forms and instructions were sent to approximately 2,000 individuals, corporations, banks, and other organizations throughout the United States. Additional forms with accompanying instructions were distributed by the Federal Reserve Bank of New York to financial institutions in its district.

C. Scope and Forms of the Census

1. Property required to be reported

Reports on Form TFR-610 were required to be filed with respect to (1) all property subject to the jurisdiction of the United States on December 18, 1950 in which on that date China or a Chinese national had any interest and which had been reported on the 1951 census; and (2) all property subject to the jurisdiction of the United States on July 1, 1970 in which on that date China or a Chinese national had any direct or indirect interest, except an unblocked national. The filing date for reports was October 1, 1970. This date was subsequently extended in numerous instances where difficulties in meeting the deadline were reported.

2. Persons required to report

Reports were required to be filed by the following persons, or their successors:

a. A person who filed a report pursuant to the 1951 census report requirements.

b. A person who held, or had in his custody, control or possession, directly or indirectly, in trust or otherwise, any property on July 1, 1970 in which there was as of that date, any interest of the People's Republic of China or a national thereof.

c. A business or non-business entity in the United States with respect to any financial interest (stocks, bonds, etc.) in such entity of China or a Chinese national which was reported in the 1951 census or which interest existed on July 1, 1970.

d. An agent or representative in the United States of China or a Chinese national who reported his principal's property on a 1951 census report or who had any information with respect to property subject to the jurisdiction of the United States on July 1, 1970 in which his Chinese principal had any interest.

3. Exemptions from reporting requirements

The reporting requirements did not apply to the Republic of China (Taiwan) or its nationals or to "unblocked Chinese nationals." The term "China" was defined for purposes of reporting as the mainland of China, specifically excluding the Republic of China. The term "unblocked Chinese national" was defined as (i) any individual in the United States or any non-Communist country, except an individual who on or since December 18, 1950 has been in or has acted for or on behalf of the People's Republic of China; (ii) any other person who has been generally or specifically licensed by the Treasury as an unblocked national; (iii) any partnership, association, corporation, or other organization which is a Chinese national solely by reason of the interest of the person listed in (i) and (ii) above.

4. Property classes

All types of property were reportable, including both tangible and intangible property with the exception of patents, trademarks, copyrights and inventions. Reportable property was classified on the report form under the following categories: (1) bullion, currency and coin; (2) deposits; (3) notes, drafts and debts to nationals; (4) financial securities payable in dollars; (5) financial securities not payable in dollars; (6) miscellaneous personal property and personal property liens; (7) real property, mortgages, and other rights to real property; (8) interests in estates and trusts; (9) insurance policies and annuities; and (10) all other property.

5. Valuation of property reported

In general, the value required for each property type was the fair market price of the property as of the close of business on July 1, 1970, or, if such price was not available, the estimated value of certain property. In some cases, property values were indeterminable, and in such cases, no value was required to be stated but the facts with respect to ownership and description of the property were nevertheless required.

6. Classes of reporters and property owners

Information as to whether the national whose property was being reported was an individual, corporation, partnership, unincorporated associations, Chinese government organization or other entity, was required, as well as similar information about the reporter, e.g., principal, agent, trustee, banker, insurance company, or other.

7. Adverse claims

Reporters were required to describe any adverse claim against blocked property. An adverse claim was defined as any claim asserted or existing against or with respect to, any item of property being reported which was adverse to the interests of the national whose property was being reported. The term includes offsets, liens, and any legal action or proceedings with respect to any items of property reported. For example, substantial amounts of blocked assets are held in bank accounts in the names of banks in the People's Republic of China. Their former officers and owners who escaped to Taiwan have made claims for the deposits. These claims were required to be described. Other examples of such adverse claims are counterclaims, liens, and offsets asserted by United States banks and other United States nationals holding blocked assets for Chinese nationals.

Reporters were also required to describe "other interests" in the property. "Other interests" was defined to include interests in the property items being reported that were not adverse to the interest of the nationals whose property was being reported, such as beneficiaries of insurance policies, heirs of estates and trusts, etc.

8. Successors in Interest

The reporting requirements apply to specific categories of persons, or to the successor of any such person. The purpose of this provision was to require that a report would be filed despite the death, for example, of the person who had reported in 1951 or the dissolution or merger of a firm which had so reported.

9. Discrepancies between amounts reported on the 1951 census and reports on Form TFR-610

Reporters were required to state whether the property being reported had been reported on the 1951 census and if a different total had been reported, to explain the difference. A careful check of the reasons for differences in these amounts was made for any discrepancy over $2,000. Discrepancies of $2,000 or less were disregarded for census purposes. If the reporter could not provide a satisfactory explanation for the release of funds, and our own files did not disclose that a Treasury license had been issued authorizing the release of funds, the reporter was required to reinstate the blocked account.

VALUE OF UNITED STATES ASSETS OWNED BY NATIONALS OF
THE PEOPLE'S REPUBLIC OF CHINA BY TYPE OF ASSETS AND TYPE OF OWNER
(Thousands of dollars)

	Type of Owner							
Type of Assets	Individual	Corporation	Partnership	Unincorporated Association	PRC Agent or Instrumentality	Third Country Bank	Other	Total
Bullion, currency and coin	---	---	---	---	---	---	---	---
Deposits	2,940	5,939	314	429	18,335	23,591	1,615	53,162
Notes, drafts and debts	526	4,492	77	---	703	---	110	5,908
Dollar securities	10,561	2,815	263	211	669	24	1,038	15,580
Non-dollar securities	736	4	19	---	348	---	87	1,193
Miscellaneous Personal Property	---	44	---	---	---	---	---	44
Estates and Trusts	200	---	---	---	---	---	---	200
Insurance Annuities	209	---	---	---	---	---	2	211
Other Property	52	30	1	---	120	---	60	263
Total	15,224	13,324	674	640	20, 174	23,614	2,911	76,563

Note: The figures are rounded.

GPO 942-643

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

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FOR IMMEDIATE RELEASE March 9, 1973

MEMORANDUM FOR THE PRESS

Attached is a Treasury Decision approved by President Nixon amending the regulations governing the inspection of tax returns by U.S. attorneys and attorneys of the Department of Justice and the use of tax returns in grand jury proceedings and in litigation.

The amendment changes the regulations to require that all applications for the inspection of returns by U.S. attorneys and Justice Department attorneys and for the use of returns in grand jury proceedings must now be made to the Commissioner of Internal Revenue. Previously, applications could be filed either with the Commissioner or the District Director of IRS. The amendment thus centralizes the clearance procedure.

The amendment also prohibits returns being furnished to the Justice Department for purposes of examining prospective jurors except that the IRS may answer a Justice Department inquiry as to whether a prospective juror has or has not been investigated by the IRS.

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TITLE 26--INTERNAL REVENUE

CHAPTER I--INTERNAL REVENUE SERVICE,
DEPARTMENT OF THE TREASURY

SUBCHAPTER F--PROCEDURE AND ADMINISTRATION

[REGULATIONS ON PROCEDURE AND ADMINISTRATION]

PART 301--PROCEDURE AND ADMINISTRATION

Inspection of returns by U. S. attorneys and attorneys of Department of Justice and use of returns in grand jury proceedings and in litigation

DEPARTMENT OF THE TREASURY,
Washington, D. C. 20224

TO OFFICERS AND EMPLOYEES OF
THE TREASURY DEPARTMENT
AND OTHERS CONCERNED:

In order to revise and strengthen the procedures governing the inspection of returns by U. S. attorneys and attorneys of the Department of Justice and the use of returns in grand jury proceedings and in litigation under section 6103 of the Internal Revenue Code of 1954, the Regulations on Procedure and Administration (26 CFR Part 301) under such section are amended as follows:

Section 301.6103 (a)-1 is amended by revising paragraphs (g) and (h). The amended provisions read as follows:

§ 301.6103 (a)-1 Inspection of returns by certain classes of persons and State and Federal Government establishments pursuant to Executive order.

*   *   *   *   *

(g) Inspection of returns by U. S. attorneys and attorneys of Department of Justice. A return in respect of any tax described in paragraph (a) (2) of this section shall be open to inspection by a U. S. attorney or by an attorney of the Department of Justice where necessary in the performance of his official duties. The application for inspection shall be in writing and shall show (1) the name and address of the person for whom the return was made, (2) the kind of tax reported on the return, (3) the taxable period covered by the return, and (4) the reason why inspection is desired. The application shall, where the inspection is to be made by a U. S. attorney, be signed by such attorney, and, where the inspection is to be made by an attorney of the Department of Justice, be signed by the Attorney General, Deputy Attorney General, or an Assistant Attorney General. The application shall

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be addressed to the Commissioner of Internal Revenue, Washington, D. C. 20224, with a copy addressed to the internal revenue officer (the district director or the director of the service center) with whom the return was filed.

(h) Use of returns in grand jury proceedings and in litigation. Returns made in respect of any tax described in paragraph (a) (2) of this section, or copies thereof, may be furnished by the Secretary or the Commissioner or the delegate of either to a U. S. attorney or an attorney of the Department of Justice for official use in proceedings before a U. S. grand jury, or in litigation in any court, if the United States is interested in the result, or for use in preparation for such proceedings or litigation. The original return will be furnished only in exceptional cases, and then only if it is made to appear that the ends of justice may otherwise be defeated. Returns or copies thereof will be furnished without written application therefor to U. S. attorneys and attorneys of the Department of Justice for official use in the prosecution of claims and demands by, and offenses against, the United States, or the defense of claims and demands against the United States or officers or employees thereof, in cases arising under the internal revenue laws or related statutes which were referred by the Department of the Treasury to the Department of Justice for such prosecution or defense. In all other cases, written application for a return or copies thereof shall be made to the Commissioner of Internal Revenue, Washington, D. C. 20224, with a copy addressed to the internal revenue officer (the district director or the director of the service center) with whom the return was filed. The application shall be in writing and shall show (1) the name and address of the person for whom the return was made, (2) the kind of tax reported on the return, (3) the taxable period covered by the return, and (4) the reason why the return or a copy thereof is desired. Such application shall be signed by the U. S. attorney if the return or copy is for his use, or by the Attorney General, the Deputy Attorney General, or an Assistant Attorney General if the return or copy is for the use of an attorney of the Department of Justice. For provisions relating to the certification of copies of returns, see § 301.6103 (a)-2. If a return, or copy thereof, is furnished pursuant to this paragraph, it shall be limited in use to the purpose for which it is furnished and is under no condition to be made public except to the extent that publicity necessarily results from such use. Neither the original nor a copy of a return desired for use in litigation in court will be furnished if the United States is not interested in the result, but

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this provision is not a limitation on the use of copies of returns by the persons entitled thereto. See paragraphs (e) and (f) of this section for use, in proceedings to which the United States is a party, of information obtained by executive departments and other Federal Government establishments from inspection of returns. If a U. S. attorney or an attorney of the Department of Justice has obtained a copy of a return under paragraph (g) of this section, an application for the use of such return in a situation specified in this paragraph shall not be necessary. Returns shall not be made available to the Department of Justice for purposes of examining prospective jurors except that this shall not prohibit the answering of an inquiry, from the Department of Justice, as to whether a prospective juror has, or has not, been investigated by the Internal Revenue Service.

* * * * *

Because this Treasury decision constitutes a general statement of policy and establishes rules of Departmental practice and procedure, it is found that it is unnecessary to issue this Treasury decision with notice and public procedure thereon under subsection (b) of section 553 of title 5 of the United States Code or subject to the effective date limitation of subsection (d) of that section.

George P. Shultz

Secretary of the Treasury

Approved:

Richard Nixon

The White House
March 8, 1973

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FOR IMMEDIATE RELEASE March 8, 1973

Office of the White House Press Secretary

THE WHITE HOUSE

EXECUTIVE ORDER

INSPECTION OF RETURNS BY U.S. ATTORNEYS
AND ATTORNEYS OF DEPARTMENT OF JUSTICE AND
USE OF RETURNS IN GRAND JURY
PROCEEDINGS AND IN LITIGATION

By virtue of the authority vested in me by section 6103 (a) of the Internal Revenue Code of 1954, as amended (26 U.S.C. 6103 (a)), it is hereby ordered that returns made in respect of the taxes imposed by chapters 1, 2, 3, 5, 6, 11, 12, and 32, subchapters B and C of chapter 33, and chapter 41 of such Code shall be open to inspection by U.S. attorneys and attorneys of the Department of Justice and for use in grand jury proceedings and in litigation in accordance and upon compliance with the rules and regulations prescribed by the Secretary of the Treasury in Treasury Decision 6543, relating to inspection and use of returns by certain classes of persons and State and Federal Government establishments, approved by the President on January 17, 1961, the amendments thereto approved by the President on April 4, 1963, March 18, 1965, and February 16, 1972, and the amendment thereto approved by me this date.

RICHARD NIXON

THE WHITE HOUSE,
March 8, 1973

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PRESS CONFERENCE
by
GEORGE SHULTZ, SECRETARY OF THE TREASURY

American Embassy, Paris,

March 9, 1973

Shultz: I think you have copies of the communique, so I won't dwell on it. I would point out that we have come to this meeting -- Chairman Burns of the Federal Reserve Board, Governor Daane and Paul Volcker, Undersecretary of the Treasury -- we came in the spirit of cooperation to work with our friends in solving common problems. We have had a meeting that proceeded in that manner, and I think that what has resulted from it basically is essentially an agreement, analytically, on what the situation is. That is, we broadly believe that the exchange rates that have been established are reasonable, as the communique says, and that essentially the problem is one of speculation; that we value orderly exchange markets and want to ensure their continuance; and procedurally, we have established an arrangement for the next week to work, on the one hand, at the deputy level, and then finally to meet at the level of ministers to see what further steps might be taken. So, I think that there is a procedural conclusion, although there is no substantive conclusion from the meeting about any particular step. So I believe this has been quite worthwhile to establish this pattern of cooperation with our friends here and in Japan, and we look forward to continuing work in that spirit. I'd be glad to respond to your questions or pass them along to any of the people who are standing here.

Q.: You started off by saying that we broadly believe that the exchange rates which have been established are realistic. Does that mean that you -- this word "broadly -- does that mean that you possibly favor certain changes or certain alterations in the system?

Shultz: No, I would have don e better, I think,just to read the sentence and stand on the sentence. 'They also agreed that the existing relationships between parities and central rates following the recent realignment correspond in their view to the economic requirements, and that these relationships will make an effective monetary contribution to a better balance of international payments". So I'll just stand on that.

Q.: Mr. Secretary, have the Europeans been able to convince you that they would work towards an equilibriated, balanced exchange system in this part of a reform of the monetary system? Were they able to convince you of this at today's meeting? Did you ask for any kind of notice of this?

Shultz: We discussed -- and I think almost everyone who spoke in the opening round of the discussion, and then you see it in the communique, and then it came up as we went along, -- the importance of long-term monetary reform, and I think that the statement in the communique on that does express the very strongly held and general

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sentimentthat we need to move onto this task. We did not, however, try to discuss the substance of that subject. As you know, there is scheduled in Washington for the end of this month a meeting of the ministers on the subject of long-term monetary reform and undoubtedly we will get into these matters then. But I think that the need, the urgent need, to work onthis and work on it hard and find ways, formal and informal, to collect our thoughts and exchange ideas is very much on everybody's mind. Certainly, it is on the mind of us in the United States, and as you know, we have put forward proposals, we have tried to back those proposals up with additional staff work, and in general have pushed hard on this.

Q.: May I ask a question of Chairman Burns? The question I have is: You received extensive play in the Herald Tribune here in Paris concerning your testimony before the House of Representatives committee in support of rapid action toward monetary reform, and I wonder whether you're satisfied with the progress that is being made in this direction?

Chairman Burns: Well, I am a hard man to please. I've always been. But I felt a sense of urgency today that I have not seen before, and therefore I'm inclined to think now that we will stop dilly-dallying and really get on to this job and try to accomplish it in months instead of taking years.

Q.: Did you ask for trade concessions?

Shultz: No, we did not. My presence here, in effect, is part of the trip the original design of which was in part to discuss the ideas on a trade bill that we are talking about in the administration and with members of Congress, and to tell our friends about those ideas, and to hear their views, and I expect to do that; but the discussion today concentrated on the subject of monetary reform in the sense of this immediate problem.

Q.: Mr. Secretary, given the lack of substantive progress at today's meeting, what grounds do you have for expecting substantive progress during the course of the week so that the markets can reopen, perhaps under a new regime of some sort, a week from Monday?

Shultz: Well, I think that substantive progress is a question of discussion back and forth, of exploring views and possibilities, and of seeing whether or not on the basis of that kind of discussion it seems worthwhile to construct a process that we will hope will lead to a constructive result. That certainly is everyone's intent, and the fact that the process is established suggests that we think there are potential patterns of cooperation here that will be broadly helpful.

Q.: Mr. Secretary, does the spirit of cooperation mentioned in here include the suggestion for American intervention, and with the help of swaps, to keep the dollar within bounds? Is this something that from the United States' point of view is considered to be

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a positive idea that we are interested in?

Shultz: Well, we have undertaken no commitments of any kind in this discussion, other than the commitment to work constructively with others, and to try to understand their problems as well as our problems, and to see what can be done with them within the limits of our policies and abilities to solve those problems. So there is no change in our position on that. That is a subject, of course, that did come up.

Q.: Mr. Secretary, on that same question, a phrase in the communique, "unanimously express their determination to ensure jointly", seems to imply United States agreement to enter into the defense of the dollar by intervening in the market. Is that not correct?

Shultz: What we have agreed to is this set of procedures, and it is our hope that we can, on the one hand, see more concretely what others have in mind and at the same time develop our own thoughts and on that basis see what may emerge jointly to ensure stability in exchange markets. But there is no commitment on that question of intervention.

Q.: Mr. Secretary, all these questions have been discussed. What new things did you discover in the discussion that permit you or encourage you to say that you have now agreed on a process and will find out? There must have been something new that has come up in these discussions, because what the British and French and others have been thinking about it you and they have known for at least eight months or so.

Shultz: Well, I don't want to prejudge in any way what others may decide is good for them and so I'd rather not try to develop that in any way.

Q.: Mr. Secretary, your position has been described by others as saying that first you want to see what Europe will do itself, and then that you want more specifics on what has been called the shopping list prepared by the EEC economic and monetary committee. Is this a fair summary of the American position?

Shultz: It is certainly fair to say that when suggestions are made to us we want to be able to understand them and study them and see them expressed with some precision, so that we can know precisely what they are, and therefore can say what kind of response is possible for us. At the same time as we consider things that may or may not be on the shopping list, our knowledge and feeling for the way in which our friends here are looking at the problem helps to evaluate what might do some good or what might not do some good.

Q.: Mr. Secretary, there were two parts to that position that was ascribed to you. The first part being that Europe itself -- that is, the EEC nations themselves -- must first settle on the kind of monetary system vis-a-vis each other that they will have. And is that also a precondition for an American response to more specifics on the shopping list?

Shultz: Well, I certainly think we want to know what it is that they wish to do and we expect to find that out, so we will be looking for that. I think at the same time that we have been able to clarify some things -- for example, on the question of our capital controls program. Our announcement there was that we intended to phase that out over roughly a two-year period, and that remains our intention. That is not an intention to drop them immediately or anything of the kind, and we expect to have the phase-out process take place in a manner that is consistent with orderly exchange markets. And we think that can be done. We think that by the time the end of 1974 arrives that the picture may very well look rather different. I might say, in addition, that it is a widely-held belief that there has been over the years a flow, a net flow, of private long-term capital from the United States to Europe which is not correct. In every one, I believe, of the past four or five years, the net flow of private long-term capital, including direct investment and portfolio investment,has been from Europe to the U.S. So I think there has been some misunderstanding of precisely what the factual situation is. But that's an example of the type of thing that I know is mentioned in the so-called shopping list, and it's helpful to clarify these matters.

Q: Mr. Secretary, did you bring any message from President Nixon to this meeting today?

A: Well, I consulted with the President as well as with my colleagues here, and the basic message from the President is that he regards our Western European friends as real friends and we want to work in a cooperative spirit with them, and we are essentially an extension of that Presidential wish.

Q: Mr. Secretary, in what way will the result today and the schedule.... has now been set up for next week have any possible effect on your talk in Moscow?

A: They are not connected in any way.

Q: Mr. Secretary, what are your plans between now and the next meeting, assuming that you will be here?

A: Yes, I do plan to be here and I expect to come back from Moscow to Western Europe. I presently plan to go to Bonn and get there on Wednesday evening. And what happens then, I think we'll see what the situation is, and I'll try to find Paul Volcker. He is tall enough so that you can usually notice him in a crowd, and see what h as been taking place.

Q: Mr. Secretary, on the basis of your talks here today, what kind of an exchange rate system do you see in effect on Monday the 19? A generalized floating system?

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A: Well, as I said, I don't want to prejudge decisions that others may make and so I'd rather not comment on that.

Q: Mr. Secretary, the proposals on the European shopping list have been under discussion for a long time, and they must certainly, in the Nixon administration and the Treasury Department and the U.S. government, have received some review in general. Are these kind of things considered to be in the realm of possibilities or not?

A: Well, the shopping list, we listened to this morning and while many of the items have been discussed from time to time, the literal availability to us in any formal sense was this morning. As a matter of fact, I don't think that we do want to get a formal copy and study it. And many of the things on the list are matters that require careful thought in the context in which they are delivered, and that was one of our thoughts in not wanting to just respond off hand. There are other things, however, such as the one I just mentioned about capital controls, where I think it is useful to clear up any misunderstanding.

Q: Mr. Secretary, is the Federal Reserve Board ready to defend the value of the dollar?

A: Well, the U.S. government, as we project ourselves abroad, acts as one and I think that the fact that Dr. Burns and I are here together, and we have been sitting together not only all day here but many days and evenings in Washington over the past few weeks and months as we considered these matters, sort of symbolizes that fact so that there is not any... there is only one view.

Q: Mr. Secretary, will you have trade talks while you are here?

A: Only to the extent of discussing with people the way we are approaching this subject. We are not here to negotiate with anybody in any sort of particular sense. But we do want to discuss the trade bill proposals and listen to people's reactions and have that type of discussion.

Q: Mr. Secretary, you said twice that you made no commitment with regard in the question of intervention. However on February 12 you did make a commitment against intervention.

A: No, what we said was: we have undertaken no obligation to intervene.

Q: I am talking of .... (undecipherable on tape)

A: That's what we said on February 12, is that the right date?

Q: Well, I am asking you now why, in a positive way, you have said you have taken no commitment tonight or today? Is it possible that you have removed the negative commitment?

A: There was not a negative commitment. There was a statement that we had undertaken no obligations to intervene. That's not the same thing as a statement that we would never intervene under any circumstances. It's just a simple statement of the fact that we have no obligation to intervene.

Q: Do you intend to participate in the (decisions) that will be adopted next week or do you intend to let the Europeans do it?

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A: Well, they of course meet frequently, I gather from reading, and will undoubtedly continue to do so, and will decide whatever they wish to decide, and we are here today to talk with them and we will be here next week, particularly next Friday, to talk further. But, as I said, I don't want to comment on any decisions they may or they may not take; that is for them to decide. If your question is, will we be at the meeting, I think it is scheduled on Sunday in Brussels; no, we will not be there.

Q: Mr. Secretary, many observers have noted a number of at least circumstantial similarities between the apparent lack of confluence of views of the monetary authorities of the world at this point... with the period of the thirties. Why should the world not be concerned that there's a breakdown of will and determination and ability to solve this problem?

A: Well, I think it has been a very interesting thing that during the past two years, or roughly two years, when there has been a fair amount of turmoil in exchange markets, that world trade has continued to expand; that has been going on. The economies of the world are generally strong. Our economy is rising very strongly. We announced today an increase in employment of half a million in one month. That is a gigantic expansion in employment. So, we have strong economies around the world and we also have a cooperative attitude, knowledgeable people who are working, I think, with care and goodwill to solve these periodic crises and I think, as Dr. Burns said, with a new sense of urgency on long-term monetary reform. And I think that one should expect, after all, that when you've had a system in effect for roughly 25 years and it has been based on a single relationship between the value of the dollar in terms of gold, that has been a system that stood there and now we are trying to move to another system; that in this period in between there are going to be rough spots. And I don't think that there is anything to get yourself into a state of such alarm as your question implied.

Q: When Dr. Burns said he noticed a new sense of urgency today, was that noticeable only among the European delegations, or did it also exist within the American delegation?

A: Well, I never have been beating my wife. The U.S. delegation has put forward a plan. We have backed up that plan with additional work. We have emphasized the importance of long-term monetary reform in what we have said and what we have done. So I think we have felt a sense of urgency and have expressed it, particularly since the World Bank IMF meetings last fall to which the President personally spoke, as well as my own speech there on behalf of these gentlemen and others present. So I think the U.S. has had a very strong thrust in this direction, all along.

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. March 12, 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 December 14, 1972 , and the other series to be dated March 15, 1973 , which were invited on March 6, 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 June 14, 1973		:	182-day Treasury bills maturing September 13, 1973	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	98.509 a/	5.898%	:	96.778 b/	6.373%
Low	98.468	6.061%	:	96.715	6.498%
Average	98.484	5.997% 1/	:	96.744	6.440% 1/

a/ Excepting one tender of $2,000,000; b/ Excepting one tender of $300,000
97% of the amount of 91-day bills bid for at the low price was accepted
38% 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	$ 21,385,000	$ 11,385,000	:	$ 14,055,000	$ 4,055,000
New York	2,728,510,000	1,826,410,000	:	2,342,640,000	1,483,340,000
Philadelphia	36,060,000	25,910,000	:	13,820,000	11,820,000
Cleveland	24,520,000	24,520,000	:	14,470,000	14,470,000
Richmond	16,130,000	16,130,000	:	12,065,000	12,065,000
Atlanta	18,120,000	18,120,000	:	12,355,000	12,355,000
Chicago	274,460,000	239,460,000	:	189,720,000	110,720,000
St. Louis	46,140,000	43,610,000	:	29,540,000	28,040,000
Minneapolis	26,190,000	22,190,000	:	21,730,000	15,730,000
Kansas City	35,920,000	27,890,000	:	27,800,000	23,800,000
Dallas	34,405,000	15,375,000	:	29,095,000	9,475,000
San Francisco	154,055,000	129,055,000	:	94,160,000	74,160,000
TOTALS	$3,415,895,000	$2,400,055,000 c/		$2,801,450,000	$1,800,030,000 d/

c/ Includes $216,050,000 noncompetitive tenders accepted at the average price of 98.484
d/ Includes $111,600,000 noncompetitive tenders accepted at the average price of 96.744
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 6.17% for the 91-day bills, and 6.75% for the 182-day bills.

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

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FOR RELEASE ON DELIVERY

STATEMENT OF
EDWARD L. MORGAN, ASSISTANT SECRETARY
(ENFORCEMENT, TARIFF AND TRADE AFFAIRS AND OPERATIONS)
FOR PRESENTATION TO THE
HOUSE SUBCOMMITTEE OF THE
COMMITTEE ON APPROPRIATIONS
MARCH 13, 1973, AT 11:00 A.M.

Mr. Chairman and members of the Subcommittee, I am pleased to appear here today in support of the FY 1974 appropriation request of the Consolidated Federal Law Enforcement Training Center.

I would like to introduce the representatives of the Center who are accompanying me today: Mr. William B. Butler, Director of the Center; Mr. Robert G. Efteland, Deputy Director; Mr. David W. McKinley, Budget and Fiscal Officer; Mr. John P. S. Stemple, Director, Criminal Investigator School; Mr. Alvin C. Turner, Director, Police School; and Mr. Michael Martinex, Director, Curriculum Development Division.

I will first discuss the status of construction for the Beltsville facility and the salary and expense request thereafter.

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Construction Request

Our FY 1974 construction appropriation request is $6 million. This would bring total monies appropriated to the Center to $33 million. The prospectus approved in 1971 calls for the total cost to the Center for this facility in direct appropriations to be $50,866,000 and the total cost from all sources to be $52,664,000. The required balance of $17,866,000, which includes estimates for equipment, will be requested in a later fiscal year.

Construction Obligations

At the end of FY 1972, construction funds of $3,607,000 had been obligated from the Center's appropriations; and total obligations on all funds available for constructing the facilities were $5,255,000. Our outlays during that same period totaled approximately $4,600,000 from all sources and $2,957,000 from Center funds. These included the completion of the Special Training Building and the Outdoor Firing Ranges and Motorcade Training Area, which are now operational.

Sewer Service

The Center has reached an agreement with the Department of Agriculture to tie-in the sewage disposal plants of the Agriculture Research Center, which are to be enlarged and improved. The Agricultural Center has been told to upgrade its current facilities by EPA and the Potomac River Enforcement

Conference. The estimated total cost of upgrading the Agricultural Center facility to which the Training Center will be connected is $750,000. The Training Center has agreed to contribute to this cost but, if Agriculture is unable to allocate funds for this purpose, the Training Center would consider funding the total $750,000 cost. This would be less expensive than constructing our own on-site facility at $1,300,000 (which is within the amount authorized for the construction of these facilities by the Congress).

Law Suit

A law suit filed by the Maryland-National Capital Park and Planning Commission and the District Council for Prince George's County contended that the Training Center's Environmental Statement previously filed was inadequate.

Treasury stipulated that it would not proceed with construction until a revised statement was filed. The revised statement was filed November 24, 1972.

On February 6, 1973, the Plaintiffs filed a motion for permission to amend their complaint objecting to the sufficiency of the Environmental Statement, alleging failure to comply with Executive Order 11512 and renewing their request for injunction. Treasury and GSA are working with the Department of Justice to file a motion for summary judgment for dismissal of the complain on the grounds that the Environmental

Impact Statement does fully comply with the National Environmental Policy Act. Since the law suit does not now present a legal impediment, GSA has advertised for a bid for clearing and grubbing, the first of the construction contracts for the balance of the facility.

Current Planning

We plan to obligate $1.9 million during this fiscal year with corresponding outlays of $2.5 million.

Assuming that the Congress will appropriate the balance of $17,866,000 in FY 1975 and that the necessary outlay ceilings are granted, GSA believes we can conclude the project at close to the $52,664,000 cost estimate.

Salaries and Expenses

For Salaries and Expenses, $2,200,000 is requested for Fiscal Year 1974, an increase of $200,000 over the FY 1973 appropriation. This will provide needed additional personnel and necessary financial support for the Police School, which began operations during the current fiscal year, and also to continue the planning and development work necessary for full scale operations at our Beltsville facility.

CRIMINAL INVESTIGATOR SCHOOL

The Criminal Investigator School, formerly the Treasury Law Enforcement School, will continue its present rate of

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training, approximately 1,200 students, during FY 1974. The current six and one-half week training program will be expanded to a seven and possibly eight week curriculum. Members of the staff will be involved with the Curriculum Development Division to lend support in the expansion of the curriculum. The staff will also be preparing for increased training loads as all participating agencies start using the school preparatory to operating in Beltsville.

The Criminal Investigator School staff also conducts an Advanced Photography School. Five classes will be conducted during FY 1973 and will be expanded to six classes in FY 1974. No additional funds are being requested for this activity.

POLICE SCHOOL

The Police School began operations during the current fiscal year. The training program is at present twelve weeks in length, with approximately 48 students in each class. Participants in the program during this year and FY 1974 are the U.S. Park Service Police Officers and Rangers, Executive Protective Service Officers, U.S. Marshals, Smithsonian Zoo Police and BIA Indian Police Officers.

During this fiscal year, 364 students will be graduated in eight classes. In FY 1974 it is estimated that 654 students will be graduated in 14 classes.

Existing positions are inadequate to service the workload of the Police School. Arrangements have been made with the participating agencies to furnish instructor support for the remainder of this fiscal year on a non-reimbursable basis.

Our FY 1974 appropriation request includes additional funds and positions to adequately support this activity.

Curriculum Development Work

During FY 1974 the Curriculum Development Division will continue to work on the development of the curricula for the Beltsville facility. In FY 1973 there has been and will be additional work on the Police School curriculum, as well as work on the expansion of the Criminal Investigator School.

Our FY 1974 request provides additional positions to augment the professional staff of the Curriculum Development Division.

Conclusion

Mr. Chairman and members of the Subcommittee, I want to thank you for this opportunity to present this material for your consideration. We will be happy to answer any questions you may have.

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

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FOR RELEASE ON DELIVERY

STATEMENT OF
EDWARD L. MORGAN, ASSISTANT SECRETARY
(ENFORCEMENT, TARIFF AND TRADE AFFAIRS AND OPERATIONS)
FOR PRESENTATION TO THE
HOUSE SUBCOMMITTEE OF THE
COMMITTEE ON APPROPRIATIONS
MARCH 13, 1973, AT 3:00 P.M.

Mr. Chairman and Members of the Committee:

It is a pleasure to appear before this Committee in support of the Bureau of Engraving and Printing. We are most appreciative of the continued interest and guidance of this Committee for the Bureau's operations.

I have with me officials of the Bureau, all of whom you know, I believe: Mr. James A. Conlon, the Bureau's Director; Mr. Donald C. Tolson, Deputy Director; and Mr. Andrew J. Wilson, Chief of the Bureau's Office of Financial Management. Accompanying us, also, is Mr. Edward J. Widmayer, Director, Office of Budget and Finance, for the Treasury Department.

As a result of the Committee's inquiries last year, the Department has been working closely with the Bureau in several studies aimed at improving its effectiveness and efficiency. Specifically, we have contracted for four studies, covering the financing of capital improvements, the corresponding

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Mr. Chairman, I believe the Bureau of Engraving and Printing is continuing its alert management improvement efforts of recent years and I am pleased to have had this opportunity to comment on them. Mr. Conlon will now report on all the Bureau's on-going programs, and we will be happy to answer any questions you may have following his testimony.

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

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FOR IMMEDIATE RELEASE March 13, 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 22, 1973, in the amount of $4,207,235,000 as follows:

91-day bills (to maturity date) to be issued March 22, 1973, in the amount of $2,400,000,000, or thereabouts, representing an additional amount of bills dated December 21, 1972, and to mature June 21, 1973 (CUSIP No. 912793 QY5) originally issued in the amount of $1,905,870,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,800,000,000, or thereabouts, to be dated March 22, 1973, and to mature September 20, 1973 (CUSIP No. 912793 RV0).

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 19, 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 March 22, 1973, in cash or other immediately available funds or in a like face amount of Treasury bills maturing March 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.

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

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MEMORANDUM TO THE PRESS: March 13, 1973

Acting Secretary of the Treasury William E. Simon today sent to Congress a proposed bill to extend for one year the authority for more flexible regulation of maximum rates of interest or dividends. Attached are copies of the draft bill and Mr. Simon's letter of transmittal to the President of the Senate (identical letter sent to the Speaker of the House).

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Attachment

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THE SECRETARY OF THE TREASURY
WASHINGTON 20220

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MAR 12 1973

Dear Mr. President:

There is transmitted herewith a draft of a proposed bill, "To extend for one year the authority for more flexible regulation of maximum rates of interest or dividends."

The present authority for the more flexible regulation of maximum rates of interest or dividends will expire on June 1, 1973. The Department recommends a temporary extension of the authority for one year to give time for the consideration of legislation broader in scope.

The control of deposit rates is but one aspect influencing the competitive relationships among depository institutions and the return which consumer-savers receive on their savings accounts. The Administration deems a review of the whole spectrum of banking legislation, rather than just one component, to be the appropriate method in assuring that the public is best served by our financial institutions.

The Administration is now concluding the policy review of a comprehensive set of legislative recommendations relating to the structure and regulation of the deposit financial institutions. A central feature of these legislative proposals will be recommendations concerning the future role of Federal regulation of interest rates paid by financial institutions on time and savings deposits.

The Administration hopes to be able to announce these legislative recommendations in narrative form by early April, with transmittal of draft legislation to follow by early June of this year.

Extension of the existing interest rate control authority for one year, through May 31, 1974, should offer sufficient time for the Congress to consider the Administration's comprehensive legislative recommendations.

It would be appreciated if you would lay the proposed bill before the Senate. An identical bill has been transmitted to the Speaker of the House of Representatives.

The Department has been advised by the Office of Management and Budget that there would be no objection to the presentation of this legislation to the Congress and that its enactment would be consistent with the Administration's objectives.

Sincerely yours,

William E. Simon
Acting Secretary

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

Enclosure

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A BILL

To extend for one year the authority for more flexible regulation of maximum rates of interest or dividends.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 7 of the Act of September 21, 1966 (Public Law 89-597; 80 Stat. 823), as amended, is further amended by striking out "1973" and inserting in lieu thereof "1974".

Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE W04-2041

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FOR RELEASE ON DELIVERY

STATEMENT OF MR. EDWARD L. MORGAN
ASSISTANT SECRETARY OF THE TREASURY FOR
ENFORCEMENT, TARIFF AND TRADE AFFAIRS,
AND OPERATIONS, FOR PRESENTATION TO THE
HOUSE SUBCOMMITTEE ON APPROPRIATIONS
WEDNESDAY, MARCH 14, 1973, 10:00 A.M., EST

Mr. Chairman and members of the Committee, it is a great pleasure for me to appear before your distinguished Committee on behalf of the programs of the Bureau of the Mint. First, I would like to introduce the witnesses for this hearing: The Honorable Mary Brooks, Director of the Mint; Frank H. MacDonald, Deputy Director of the Mint; Ben C. Hollyfield, Financial Manager; George G. Ambrose, Assistant Director for Production; Sidney F. Carwile, Assistant Director for Administration; Roy C. Cahoon, Assistant Director for Public Information; J. Eugene Sparks, Assistant Financial Manager; Edward J. Widmayer, Director, Office of Budget and Finance; and C. W. Smith, Budget Analyst.

The Mint has been experiencing growing pains over the last few years, but we feel that we are well on the way to having the major problhens under control.

Activities of the Mint include: the manufacture and shipment of coins; various deposit transactions including inter-Mint transfers of bullion; the safeguarding of the Government's holdings of monetary metals and coins; and the refining of gold and silver bullion. The Mint organization consists of coinage Mints located at Philadelphia and Denver, Assay Offices at San Francisco and New York; Bullion Depositories at Fort Knox and West Point; and the Washington Headquarters staff.

DIRECT PROGRAM

We are asking for an appropriation of $24,500,000 for Salaries and Expenses for the year, an increase of $500,000 over the total of $24,000,000 authorized for the Fiscal Year 1973. We will be able to produce 477 million more coins in Fiscal Year 1974 than in Fiscal Year 1973. Also, we plan to increase our manufacture of coinage strip in-house to the extent that appropriated funds are available.

Although our appropriation request is only $24, 500, 000, the revenues of the Bureau of the Mint deposited to the Treasury in Fiscal Year 1974 are projected at about $540 million, which includes seigniorage and miscellaneous revenues.

Under this budget we estimate that we can coin about 8. 9 billion pieces during Fiscal Year 1974, including 301 million 50¢ and dollar coins, at a cost to the appropriation of $16, 435, 000, as compared with 8. 4 billion coins in the current year at $15, 480, 000.

In our continuing effort to improve techniques for estimating coin demand, the Mint and the Federal Reserve Board have further refined procedures for projecting coin needs in accordance with recommendations proposed by the Office of the Secretary in its internal management study. Our coin production estimate for Fiscal Year 1974 of almost 8. 9 billion coins is based on this coin forecasting program.

NUMISMATIC AND OTHER REIMBURSABLE OPERATIONS

In Fiscal Year 1974 we estimate that our reimbursable program will cost approximately $43, 386, 000. The Mint's reimbursable programs continue to be very active. We are currently continuing the numismatic programs which have been previously reported as well as two programs for the American Revolution Bicentennial Commission. We are also assisting the General Services Administration in sorting, packaging and mailing the Carson City silver dollars.

CONSTRUCTION OF MINT FACILITIES

A major concern of the Department is that we have sufficient coining facilities to meet the needs of the economy in the future. As you are aware, we are planning a new Mint in Denver. However, as a result of delays in obtaining a site, we are not requesting any construction funds for Fiscal Year 1974. The Director of the Mint and her staff will be able to give more specific details as to the present status of this project.

We are most grateful to this Committee for its past assistance. I will now turn the testimony over to Mrs. Brooks, Director of the Mint, but will be available for further participation.

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

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FOR RELEASE AT 10:00 A.M.

STATEMENT BY THE HONORABLE JAMES E. SMITH
DEPUTY UNDER SECRETARY OF THE TREASURY
BEFORE
SUBCOMMITTEE ON BANK SUPERVISION AND INSURANCE
HOUSE COMMITTEE ON BANKING AND CURRENCY
THURSDAY, MARCH 15, 1973, 10:00 A.M.

Mr. Chairman, I am pleased to appear before this distinguished Committee today to discuss the Administration's position on H.R. 4070, dealing with the extension of deposit interest rate controls and other related matters. Accompanying me is Mr. Howard Beasley, the Special Assistant to the Deputy Secretary, who has played a major role in assessing various recommendations for financial institution reform.

As you know, the Administration transmitted to the Congress on Tuesday, March 13, a draft bill extending for one year, through May 31, 1974, the existing flexible authority for regulating time and savings deposit rates in Federally-insured financial institutions.

We believe that there is real merit in extending for a period of time the current deposit rate controls but only as

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an interim measure which will provide us the time to take a comprehensive look at the spectrum of laws which affect not only financial institutions but also consumer-savers.

The control of deposit rates is but one aspect influencing the competitive relationships among depository institutions and the return which consumer-savers receive on their savings accounts. The Administration deems a total review of the deposit institution structure and services, rather than of just one component, to be the appropriate method to assure that the public is best served by our financial institutions.

Since the inception of the present structure of rate controls in 1966, there has been a continuing debate as to the efficacy of ceiling rates on deposits - both from the standpoint of the institution and its ability to compete for funds and from the standpoint of the consumer and his right to a fair return on his savings. Unquestionably, these are two valid, and highly important, considerations. However, balanced analysis demands that we not only look at the liability structure of these institutions but also at their asset structure in order to determine whether or not they can generate sufficient earnings to pay freely competitive rates on deposits. This essential interdependence

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between assets and liabilities points up the difficulty of dealing with any of these institutional powers in isolation.

The Administration is now concluding the policy review of a comprehensive set of legislative recommendations which address the major issues with respect to the structure and regulation of deposit financial institutions. A central feature of these legislative proposals will be recommendations concerning the future role of Federal regulation of interest rates paid by financial institutions on time and savings deposits.

The Administration hopes to be able to announce these legislative recommendations in narrative form by early April, with transmittal of draft legislation to follow by early June of this year.

For these reasons the Administration believes that a simple extension of existing interest rate control authority for one year, through May 31, 1974, is the appropriate approach at this time. Such an approach will provide sufficient time for Congress to consider carefully the Administration's comprehensive legislative recommendations. It does not seem wise to us to attempt merely to patch up the existing financial system which the momentum of competitive forces, spurred on by consumer interests, see destined to restructure. Our financial depository system is far too complex and important to attempt to redesign by using any method short of a comprehensive and thorough review.

Thank you!

Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE W04-2041

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FOR RELEASE ON DELIVERY
FRIDAY, MARCH 16, 1973

REMARKS BY THE HONORABLE SAMUEL R. PIERCE, JR.
GENERAL COUNSEL OF THE TREASURY
AT THE
DENVER COST OF LIVING COUNCIL REGIONAL CONFERENCE
ON PHASE III
FRIDAY, MARCH 16, 1973
Denver, Colorado
(At 9:00 A.M. MST)

PHASE III OF THE ECONOMIC STABILIZATION 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 restraints 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 had 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 regulations issued or rulings made by either the Pay Board or Price Commission.

Advisory committees were 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 also 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 goods.

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.

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 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 Phase II, 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 fcr 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 caused the earlier inflation. The Administration will vigorously resist this danger. That is why it intends to hold Federal

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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

Phase III became effective on January 11, 1973. The Cost of Living Council was continued. The Price Commission and Pay Board and all advisory committees that existed under Phase II were terminated, and the authority of the Commission and Board as well as their staffs was 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 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 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 inconsistent with the standards or goals of the program, the 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. Recently, for example, the Council took its big stick out of the closet and hit certain oil companies with it by limiting their price increases, cancelling their term limit pricing authorizations, and by imposing upon them certain reporting requirements.

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 processors 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 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 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.

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Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE W04-2041

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FOR IMMEDIATE RELEASE March 15, 1973

ANTIDUMPING INVESTIGATIONS INITIATED ON
PRIMARY LEAD METAL FROM CANADA AND AUSTRALIA

Assistant Secretary of the Treasury Edward L. Morgan announced today the initiation of two antidumping investigations on imports of primary lead metal from Canada and Australia. This lead metal is used chiefly in the production of storage batteries, pigments and chemicals, including gasoline additives.

Notice of these actions will be published in the Federal Register of March 15, 1973.

Mr. Morgan's announcement followed summary investigations 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 primary lead metal from Canada during calendar year 1972 amounted to approximately $22 million. During the same period, imports of this lead from Australia were valued at roughly $10.5 million.

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UNITED STATES SAVINGS BONDS ISSUED AND REDEEMED THROUGH February 28, 1973

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

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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	3,746	8	.21
UNMATURED				
Series E 3/ :				
1941	1,920	1,732	188	9.79
1942	1,473	7,633	841	9.93
1943	13,614	12,294	1,320	9.70
1944	15,896	14,278	1,618	10.18
1945	12,513	11,096	1,417	11.32
1946	5,705	4,902	802	14.06
1947	5,436	4,539	897	16.50
1948	5,636	4,629	1,007	17.87
1949	5,591	4,514	1,077	19.26
1950	4,906	3,909	997	20.32
1951	4,243	3,380	863	20.34
1952	4,450	3,520	930	20.90
1953	5,091	3,950	1,142	22.43
1954	5,190	3,974	1,217	23.45
1955	5,410	4,101	1,309	24.20
1956	5,230	3,931	1,299	24.84
1957	4,933	3,661	1,272	25.79
1958	4,827	3,486	1,340	27.76
1959	4,530	3,234	1,296	28.61
1960	4,555	3,159	1,396	30.65
1961	4,643	3,098	1,546	33.30
1962	4,516	2,925	1,590	35.21
1963	5,072	3,084	1,988	39.20
1964	4,944	3,013	1,930	39.04
1965	4,824	2,905	1,919	39.78
1966	5,195	3,005	2,189	42.14
1967	5,137	2,942	2,195	42.73
1968	4,878	2,748	2,130	43.67
1969	4,587	2,458	2,129	46.41
1970	4,798	2,251	2,547	53.08
1971	5,517	2,095	3,423	62.04
1972	5,961	1,313	3,648	77.97
1973	139	-	139	100.00
Unclassified	358	316	42	11.73
Total Series E	188,718	138,075	50,643	26.84
Series H (1952 thru May, 1959) 3/	5,485	3,940	1,544	28.15
H (June, 1959 thru 1973)	8,893	2,918	5,976	67.20
Total Series H	14,378	6,858	7,520	52.30
Total Series E and H	203,096	144,933	58,163	28.64
All Series – Total matured	38,278	38,241	36	.09
All Series – Total unmatured	203,096	144,933	58,163	28.64
All Series – Grand Total	241,374	183,174	58,199	24.11

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.

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PRESS CONFERENCE

BY

GEORGE P. SHULTZ, SECRETARY OF THE TREASURY
Moscow, Russia
March 14, 1973

1. Joseph A. Loftus: The Secretary is here. His remarks will be on the record. In the interest of time we will have to limit this to thirty minutes and you will excuse us if we break and run then.

Secretary Shultz: I'd like to first express my thanks to all of the officials of the Russian Government who have greeted me warmly and with great hospitality during my visit here and the visit of my colleagues who are with me.

2. As you know, the trip here on my part was not a trip to negotiate anything in particular, but with the new responsibilities which President Nixon has assigned me in the field of East-West Trade and in the U.S.- USSR Trade Commission I have taken the opportunity to come here and meet with many of the responsible officials of the Soviet Union that I will be having discussions with as all of this unfolds.

3. I believe that the schedule of who I have met with has been made public, is that correct, so I don't need to go over that. I would say that through it the series of meeting the discussions have been serious, professional and constructive in tone. I have learned a lot from them and I have also been pleased with the warm spirit that has lain behind the discussion.

4. As to topics which were discussed, I have described to my host the organizational arrangements in the U.S. Government that were announced by the President last week having to do with our way of constructing policy on East-West Trade and conducting the business of trade, and I tried to explain how that would work and who all is involved.

5. Second, I have reviewed with the various people I have met with, the status of the MFN Legislation in our Congress and tried to explain the nature of the problem as we see it, and to be sure that people were generally informed about that aspect of the overall relationship.

6. I have reviewed the status of the various energy projects, particularly the gas projects, and I think I tried to put forward our view of them; namely, that while there is a great deal of uncertainty, there are many questions to be answered, many engineering, technical and economic matters to be worked out. We nevertheless, within the context of the overall domestic energy picture in the U.S. which we are working on, think that the possibilities in the development of Soviet gas and trade in that area are promising enough to warrant continued exploration of these possibilities and the investment of effort to answer some of the unresolved questions about just how that might proceed and whether or not it is indeed a feasible thing and would be mutually beneficial to both countries. So there is no conclusion, answer to that question, but from the standpoint of the U.S. a continuing desire to explore further and try to understand better what all is involved.

7. Finally, I had some discussion with the various people I met with of the general subject of trade and agricultural products, and of course this is something that will have to be dealt with by people who are closer to the subject than I, from the Department of Agriculture, but I think the general point that I sought to bring to people's attention is that the more lead time we have and information of what the Soviet intentions are the more efficiently there can be in our performance.

8. I would say finally that, in repeating, that the Soviet officials were quite forthcoming in their explanations to me of the duties of the various departments that I met with, and this was especially so in trying to appraise on my part the way in which the subject of foreign trade interacted with the way in which the system works as a whole. So again I express my gratitude for their hospitality and for the warm tone and spirit of the conversations.

Q. Mr. Shultz, what did you tell Soviet leaders about the Jackson Amendment and the problems with the Trade Bill, and how serious is that problem?

A. Well, I simply described it and the background of it and the nature of the American Political Process involving the interaction of the President and the Congress and at the same time expressed the President's continuing determination to carry forward on this part

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of the agreement that was made with the Soviet leaders. But I think it is useful for them to know as clearly as we can put it what the nature of the problem is and the political process that were engaged in it.

Q. Mr. Secretary, what practical results can be expected, in your opinion, in American trade in the near future? In a year or two?

A. Well, I think, as I said, I didn't come here to try to pin down any particular thing, but there have already been quite a few developments in the field of trade. There has been a large flow of agricultural products. There is under very active, we hope virtually conclusive discussion right now, certain projects with which OSR EX-IM Bank is connected and, of course, there is the continuing exploration of energy sources and arrangementsof that kind so I think this is something that develops and unfolds, but I've tried to mention some of the things that have already taken place.

Q. Would you say something, sir, about your talks this morning with Secretary Brezhnev?

A. Well, I think that the comments that I have made about the talks in general certainly apply to that. It was the longest of all of the discussions that I had, that is, the meeting itself went on over a longer period and covered the sweep of relationships between the U.S. and the Soviet Union, and I think served to emphasize and put in place securely the notion that when we're talking about trade matters and when we're talking about economic relations of a broader and longer term sort, those are of course of great significance in and of themselves, but they take on an added character as part of a constellation of things that are going on characterizing the developing relations between the U.S. and the USSR.

We covered that ground and many other matters along the lines of the general discussion I have already given, but I would emphasize that the whole discussion was characterized by a very good spirit.

Q. Mr. Shultz, do you have any impression that the Soviet Union's attitude toward Jewish Emigration will change because of anything you said or because of any receptions of the people you talked to had?

A. Well, I think that is a question that they will have to answer and don't want to in any sense try to estimate anything about their policy. My objectives here was to explain that problem from the standpoint of the U.S.

Q. Did you tell them Mr. Shultz, that the bill is unlikely to pass unless there is some loosening up on the Jewish Emigration question?

A. Well, I think there is a question of course what bill are we talking about, and precisely how is this bill going to come before the Congress, and the President has not yet decided precisely how that will be done so I think it remains to be seen. You can't predict the outcome of a piece of legislation that has not yet been introduced.

Q. Mr. Brezhnev say anything about his trip to the United States?

A. No.

Q. Did you discuss currency problems at all -- Gold?

A. No. Just in passing at one time one of the, I think the finance minister mentioned that he, in fact, he did this at the beginning of the meeting when the television was in the room, referred to my IMF Speech and the emphasis on SDR's which he on the whole seemed to think was good.

Q. Mr. Secretary, would you say at all what Mr. Brezhnev said about the Jackson and those amendments and how he talked about the Soviet Emigration Law?

A. No, I wouldn't want to in any sense so to speak put myself in his shoes and try to express his views. That is I think something I wouldn't want to try to do at all.

Q. Are you optimistic, sir?

A. The answer to that question is yes as a general proposition, and I think the principal reason for that is that there does seem to be without question a warm and good and constructive spirit, a spirit that says let us get on and let us do things that are worthwhile together, and I would couple that with an ability to dig into the details of things.

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It's obvious that you can't sort of implement broad, general good relations, you have to get down to specifics and then the question is whether or not faced with the specific problems in a particular project or something of that kind, people have the will to overcome the inevitable detailed problems that tend to arise in every context, and so I think there is both the spirit to try to solve problems and the willingness to tackle them in very real terms, and given those two things it seems to me that we can be optimistic about the general prospects for development.

Q. Did they give you an indication that they are going to have to buy more grain from us this year?

A. I think that is rather early to be able to predict just what purchases there may be, but I did try to call attention to the fact, as I mentioned earlier, that the greater the lead time that we have on these matters the more effective we can be not only serving what possibilities there may be here but in serving our own population and others around the world who want to buy farm products from U.S.

I think something on the order of a third of our total farm output goes into export so it's a very significant amount, and if we have a little longer lead time we can plan better for the process not only in terms of production of farm goods but also in terms of the transportation system needed to move the farm goods from the farm to collecting places and through the rail system and the barge system and out.

Q. Mr. Shultz, you mentioned that this was not a negotiating session but rather a series of meetings to get acquainted. (Yes) when specifically and how do you now expect to move into a negotiating phase for all these questions that are hanging fire: gas, energy, financing, as you look ahead the next few months?

A. Well, I think that those things are literally currently going on, and then the pace of negotiations on some particular thing kind of goes forward in its own terms, that is, there has been a set of discussions that I assume are probably taking place again today involving our own EX-IM Bank and several projects that have been quite well worked out by this time to try to bring to a final conclusion those negotiations.

Well, that is something that has been going on and is literally going on. If you take another one of the subjects you mentioned, the various proposals about development of gas and the use of gas. Well, there has been quite a lot of discussion about that and my estimate is that it has reached the stage where one can say that at least certain of these projects seem to be promising, promising enough so that the great many questions that have to be determined of an engineering and economic sort much more precisely and in much more detail than we now know them, well, work should go forward on that, and not with any certainty that there can be a conclusion to go ahead but with enough probability to warrant spending the extra time and effort to see what can take place.

So I think the answer to your question is at what time will certain negotiations take place. Well, it depends on the particular project that one has in mind and it varies.

Q. Mr. Shultz, can you confirm or deny a question of whether there has been an agreement that the United States and other countries agreed in principle to sell gold on the free market in the central banks?

A. That particular subject did not come up in the meetings that we had last Friday in Paris. I have been away from the international monetary scene personally since last weekend and I expect to meet with Mr. Volcker, Under Secretary of the Treasury, this evening and then Dr. Burns will be back and rejoin us on Thursday evening in preparation for the discussions on Friday. What all may have come up I don't know.

Q. Mr. Secretary, do you get any indication or do you have any comments on how the Soviet Union would like to pay for purchases in the United States? Outside of credits and energy, are there particular products they have in mind? Do they look forward to a balance in trade?

A. Well, I think certainly we all must look forward to a balance in trade and that is the essence of the matter, that is what mutual advantage is made up of. Of course, the prospects in the energy field are potentially vast and can be of great significance. There are quite a number of other products that have been mentioned I know from time to time here that they would like to sell us, and I am not in a position to comment detail by detail except to say that I know there is a substantial list of possibilities.

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Q. Are they prepared, Mr. Shultz, to give you the information the American industry needs on the gas project to go ahead with these studies?

A. Well, I again would just have to repeat that as to what their outlook is and what they are prepared to do you will have to ask them. I can report to you what our outlook is and what we're prepared to do.

Q. Mr. Secretary, what are the plans for submitting legislation -- is there a time limit by which trade legislation will be presented in Congress? (Secretary: Are you speaking about trade legislation in general or the MFN legislation?)

A. Well, we want to send that up as promptly as we can, of course it is easy enough to send something up to the Congress. But that is not what we're looking for, what we're looking for is a constructive outcome of the Joint Executive/Congressional Process, and that is what we are working on, but I expect that there will soon be some motion on this on the part of the Executive Branch that is explicit, but we are trying to see how this matter can be worked at with the maximum chance for success.

Q. Is there still a question of including MFN with an overall trade bill? Is that still on?

A. That is one question and there may be others as well.

Q. Sir, is it fair to say that there can be no Brezhnev visit until after MFN is passed?

A. That I am not in a position to comment about.

Q. Sir, did you bring any message with you about the new U.S. Ambassador to Moscow or a comment on the absence of an ambassador at a very vital time over the past two months?

A. I don't have any special information on that, except that obviously President Nixon regards the relationship -- the U.S. relationships with the USSR -- as matters of the highest importance and it's for that reason that he has been paying a lot of attention to it personally, and has for example sent me here.

Q. Did you bring any special letter or message from the President in addition to the general type of greeting?

A. Well I brought very explicitly from the President to this country and to General Secretary Brezhnev the President's own desire to see further development of constructive relationships between these two countries and particularly in the field of trade, but as I said earlier, seeing this as part of the unfolding of a general set of relationships as well as being something important in and of itself.

Q. Mr. Secretary, did the question of strategic controls, that is to say, the embargo come up in any way and if not, (no) are there any channels of communications being set up to discuss this question or in some way to resolve this problem?

A. There are, of course, talks going on strategic arms limitations and (Mr. Secretary, I meant embargo on strategic goods, such as computers and the kind of technology the Soviet Union...) Yes. Well, those are subjects that are always under review but they did not come up in the course of my discussion.

Q. Are you carrying any message from Secretary Brezhnev to President Nixon?

A. Well, I certainly intend to report to the President the very warm and forthcoming sentiments that the General Secretary expressed and to which I have alluded in general terms here, and I will naturally give him a full report on my conversations.

Q. Mr. Secretary, did the question of joint efforts in the reconstruction of Vietnam come up at all?

A. No, that didn't come up. End text.

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FOR IMMEDIATE RELEASE MARCH 16, 1973

Statement by Acting Secretary of the Treasury
William E. Simon on Resignation of
Commissioner of Internal Revenue
Johnnie M. Walters

The President today announced the resignation of Johnnie M. Walters as Commissioner of Internal Revenue. At the request of Secretary Shultz, Commissioner Walters had delayed his actual departure for several months. Now that the 1973 filing season is drawing to a close, Mr. Walters plans to leave his post shortly.

Commissioner Walters has made an outstanding contribution to the effective administration of the voluntary self-assessment tax system. Mr. Walters has served in President Nixon's Administrations since January 1969. In January 1969 he was confirmed as Assistant Attorney General. He served until August 1971 as head of the Department of Justice Tax Division. In June 1971, President Nixon named him Commissioner of Internal Revenue. After Senate confirmation, he took the oath of office on August 6, 1971.

As Commissioner, Mr. Walters has been responsible for managing the Internal Revenue Service's 70,000 employees in its responsibility to collect 200 billion dollars annually. While performing that critical function, the Service also has contributed mightily to President Nixon's Economic Stabilization Program and campaigns against narcotics traffickers. At the same time, under Commissioner Walters, the Interenal Revenue Service, with the theme "We want to help," adopted and implemented a forward-looking program emphasizing greater service to the public.

Mr. Walters plans to re-enter the private practice of law when he leaves Internal Revenue.

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FOR IMMEDIATE RELEASE March 16, 1973

MEMORANDUM FOR CORRESPONDENTS:

Secretary of the Treasury George P. Shultz will leave Paris Saturday morning, March 17. He will fly to Brussels and later in the day will fly on to London, England. He will meet with trade and finance ministry officials in both nations, to continue the series of meetings he has been having in the USSR and Europe.

His exact schedule in both cities will be announced on arrival.

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Department of the TREASURY NEWS
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March 16, 1973

PRESS COMMUNIQUE
OF THE MINISTERIAL MEETING OF THE GROUP OF TEN
AND THE EUROPEAN ECONOMIC COMMUNITY
PARIS, FRANCE

The Ministers and Central Bank Governors of the ten countries participating in the general arrangements to borrow and the member countries of the European Economic Community met in Paris on 16th March, 1973 under the Chairmanship of Mr. Valery Giscard d'Estaing, Minister of the Economy and of Finance of France. Mr. P. P. Schweitzer, Managing Director of the International Monetary Fund, took part in the meeting, which was also attended by Mr. Nello Celio, head of the Federal Department of Finance of the Swiss Confederation, Mr. E. Stopper, President of the Swiss National Bank, Mr. W. Haeferkamp, Vice President of the Commission of the European Economic Community, Mr. E. Vann Lennep, Secretary-General of the Organization for Economic Co-operation and Development, Mr. Rene Larre, General Manager of the Bank for International Settlements and Mr. Jeremy Morse, Chairman of the Deputies of the Committee of Twenty of the I.M.F. The Ministers and Governors heard a report by the Chairman of their Deputies, Mr. Rinaldo Ossola on the results of the technical study which the Deputies have carried out in accordance with the instructions given to them.

The Ministers and Governors took note of the decisions of the members of the E. E. C. announced on Monday. Six members of the E. E. C. and certain other European countries, including Sweden, will maintain 2-1/4 per cent margins between their currencies. The currencies of certain countries, such as Italy, the United Kingdom, Ireland, Japan and Canada remain, for the time being, floating. However, Italy, the United Kingdom and Ireland have expressed the intention of associating themselves as soon as possible with the decision to maintain E. E. C. exchange rates within margins of 2-1/4 per cent and meanwhile of remaining in consultation with their E. E. C. partners.

The Ministers and Governors reiterated their determination to ensure jointly an orderly exchange rate system. To this end, they agreed on the basis for an operational approach towards the exchange markets in the near future and on certain further studies to be completed as a matter of urgency.

They agreed in principle that official intervention in exchange markets may be useful at appropriate times to facilitate the maintenance of orderly conditions, keeping in mind also the desirability of encouraging reflows of speculative movements of funds. Each nation stated that it will be prepared to intervene at its initiative in its own market, when necessary and desirable, acting in a flexible manner in the light of market conditions and in close consultation with the authorities of the nation whose currency may be bought or sold. The countries which have decided to maintain 2-1/4 per cent margins between their currencies have made known their intention of concerting among themselves the application of these provisions. Such intervention will be financed, when necessary, through use of mutual credit facilities. To ensure fully adequate resources for such operations, it is envisaged that some of the existing "swap" facilities will be enlarged.

Some countries have announced additional measures to restrain capital inflows. The United States authorities emphasized that the phasing out of their controls on longer-term capital outflows by the end of 1974 was intended to coincide with strong improvement in the U.S. balance-of-payments position. Any steps taken during the interim period toward the elimination of these controls would take due account of exchange market conditions and the balance of payments trends. The U.S. authorities are also reviewing actions that may be appropriate to remove inhibitions on the inflow of capital into the United States. Countries in a strong payments position will review the possibility of removing or relaxing any restrictions on capital outflows, particulary long-term.

Ministers and governors noted the importance of dampening speculative capital movements. They stated their intention to seek more complete understanding of the source and nature of the large capital flows which have recently taken place.

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With respect to Euro-currency markets, they agreed that methods of reducing the volatility of these markets will be studied intensively, taking into account the implications for the longer-run operation of the international monetary system. These studies will address themselves, among other factors, to limitations on placement of official reserves in that market by member nations of the IMF and to the possible need for reserve requirements comparable to those in national banking markets. With respect to the former, the ministers and governors confirmed that their authorities would be prepared to take the lead by implementing certain undertakings that their own placements would be gradually and prudently withdrawn. The United States will review possible action to encourage a flow of Euro-currency funds to the United States as market conditions permit.

In the context of discussions of monetary reform, the ministers and governors agreed that proposals for funding or consolidation of official currency balances deserved thorough and urgent attention. This matter is already on the agenda of the Committee of Twenty of the IMF.

Ministers and governors reaffirmed their attachment to the basic principles which have governed international economic relations since the last war as the greatest possible freedom for international trade and investment and the avoidance of competitive changes of exchange rates. They stated their determination to continue to use the existing organizations of international economic co-operation to maintain these principles for the benefit of all their members.

Ministers and governors expressed their unanimous conviction that international monetary stability rests, in the last analysis, on the success of national efforts to contain inflation. They are resolved to pursue fully appropriate policies to this end.

Ministers and governors are confident that, taken together, these moves will launch an internationally responsible program for dealing with the speculative pressures that have recently emerged and for maintaining orderly international monetary arrangements, while the work of reform of the international monetary system is pressed ahead. They reiterated their concern that this work be expedited and brought to an early conclusion in the framework of the Committee of Twenty of the IMF.

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FOR IMMEDIATE RELEASE March 16, 1973

The Emergency Loan Guarantee Board today gave its consent to a request by Lockheed Aircraft Corporation to acquire the Murdock Machine and Engineering Company, a division of the CCI Corporation. Murdock is the supplier of the pylons used in Lockheed's L-1011 Tristar. The Board's consent was required under the 1971 Agreements between Lockheed, its lending banks and the Board.

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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 COMMITTEE ON APPROPRIATIONS
MONDAY, MARCH 19, 1973, at 10:15 A.M. (EST)

Mr. Chairman and Members of the Committee:

I welcome this opportunity to appear before the Senate Appropriations Committee to explain the effect of the proposed 10-percent change in par value of the dollar on United States assets and liabilities, as well as the need for an appropriation to meet certain of these liabilities.

The details of these changes are quite complex. I believe it would be helpful in understanding this subject if you would follow the tables attached to my testimony as I proceed.

Devaluation has two purely financial effects: certain assets and certain liabilities are increased in value. First, let me discuss the assets side.

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Increase in Value of Assets

Devaluation increases the value of assets that are denominated in terms of gold. An ounce of gold at the official price is now worth $38; after devaluation this same ounce of gold will be valued at $42.22 -- an 11.1 percent increase. Thus assets that are denominated in terms of gold will be worth more in terms of dollars.

The United States has two classes of assets that are denominated in gold:

(a) international reserves -- gold, Special Drawing Rights, and gold tranche drawing rights on the IMF, and

(b) subscriptions to the international financial institutions.

First, the effect on our international reserve assets.

Gold

The dollar value of our gold stock will increase by 11.1 percent from $10,487 million to $11,652 million, an increase of $1,165 million. Under existing law, this increment in value is transferred to miscellaneous receipts of the Treasury. The Treasury can issue gold certificates to the Federal Reserve against this increased value of gold and receive from the Federal Reserve a cash deposit.

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Special Drawing Rights

The United States now holds $1,958 million Special Drawing Rights and these SDRs are denominated in terms of gold. The dollar value increase as a result of devaluation amounts to $218 million. The SDR is a new international reserve asset created by the IMF and useable by member governments in a way comparable to gold to settle international imbalances. The United States wishes to see greater reliance on the use of this instrument in the international monetary system in the future.

IMF Gold Tranche

Our remaining gold tranche automatic drawing rights on the International Monetary Fund, which represents gold which we have paid to the Fund, increases by $52 million to a total of $469 million. These are automatic rights to draw currencies from the IMF when needed to finance a balance of payments deficit. As of the present, we are using $1.4 million of these drawing rights.

IMF Subscription and Paid-in Capital Subscriptions

The devaluation also has the effect of increasing the value of another type of asset -- our paid-in subscriptions to the International Monetary Fund and the international development lending institutions. These assets are denominated in terms of gold and therefore increase in dollar value -- $606 million for the Fund subscription and $477 million for the paid-in capital subscriptions to the lending institutions. However, to realize this increase in value, we must pay in additional dollars to these institutions, which I will mention in the discussion of the increase in our liabilities.

The total increase in assets amounts to $2.5 billion -- $1.4 billion in liquid international reserve assets and $1.1 billion in the value of international financial institutions subscriptions.

Increase in Liabilities

On the liability side, there are increases in three general types of liabilities:

- -- liabilities resulting from borrowing of foreign currencies and foreign exchange operations;
- -- increase in repayment obligations resulting from IMF drawings and SDR allocations; and
- -- maintenance of value obligations in the international financial institutions.

Some of these liabilities will be financed from Federal Reserve resources and from the Exchange Stabilization Fund without need of appropriations. The remainder -- our increased payment obligations to the international financial

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institutions -- will require an appropriation of up to $2.25 billion. However, of this new obligational authority, only $477 million will result in budgetary expenditures. I would now like to give you some of the details on each of these liability items.

Non-appropriation Liabilities -- Treasury Borrowings, SDRs and Swaps

The portions of our liabilities not requiring appropriations are those derived from Treasury borrowing in foreign currencies, from Special Drawing Rights and from Federal Reserve mutual credit "swap" arrangements.

The devaluation will make it more costly in terms of dollars to purchase the foreign currencies needed to repay the $1,714 million of Treasury borrowing denominated in Swiss francs and German marks. The additional cost is estimated at $193 million and would be financed from the Exchange Stabilization Fund -- the organ of the Government established for dealing in foreign exchange and which is designed to absorb gains or losses involved in foreign exchange transactions.

Similarly, our increased repayment obligations to the IMF on allocations of Special Drawing Rights do not require an appropriation. In accordance with established accounting procedures, we have not only written up by $218 million the increase in value of our present holdings of SDR as an asset, as I have already described, but we have also increased on the books of the ESF our liability to the International Monetary Fund of $278 million based on our allocations of Special Drawing Rights. The net liability, amounting to $60 million, would only be realized if the SDR scheme were liquidated or if the United States withdrew from it.

The last non-appropriation liability results from the additional cost of purchasing foreign currencies at the new exchange rates to repay Federal Reserve swap borrowing totalling $1,639 million. The additional cost to the Federal Reserve of purchasing foreign currencies is an estimated $196 million and this amount will be absorbed from the earnings of the Federal Reserve System.

Liabilities Requiring Appropriations

I will now turn to the liabilities requiring appropriations. These, too, are of three different types:

- -- maintenance of value on the International Monetary Fund's holdings of dollars;
- -- contingent obligations to the international development lending institutions; and
- -- paid-in capital subscriptions to these institutions.

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As you can see, all of these liabilities are to the international financial institutions. They derive from a provision in their Articles of Agreement requiring member countries to maintain the value of their subscriptions in terms of a common denominator, in this case gold. In other words, a member that devalues its currency must pay in additional amounts of that currency in order to maintain the same gold value, and thus the same proportionate contributions, as existed prior to devaluation. The provision is thus intended to guard against loss in the relative value of the contributions of all members despite alterations in exchange rates, thus assuring that the equitable burden sharing that these institutions seek to achieve is not distorted and that voting rights are not diminished. In the past, there have been over 200 devaluations involving 60 countries. In every case, maintenance of value obligations have been fulfilled.

Liability to IMF

The first type of liability -- maintenance of value on International Monetary Fund holdings of dollars -- has two components. First, the IMF Articles require us to increase the value of our subscription of $7.2 billion by 11.1 percent. In addition, the United States has paid

$1.4 billion to the Fund as a result of drawings of foreign currencies. This sum must also be maintained in value by the same percentage resulting in a payment of $150 million.

Thus, total payments to the Fund will amount to $756 million. This obligation -- to be reflected in the form of a letter of credit -- will have no budgetary impact. U.S. transactions with the Fund are excluded from the budget in accordance with a recommendation of the President's Commission on Budget Concepts which pointed out that subscriptions, drawings and other transactions with the Fund were monetary exchanges of assets. Our subscription is akin to a deposit in a bank that can be used by the bank for lending to others and also to establish a line of credit for the depositor -- in this case the United States.

Contingent Obligations to Development Banks

The second category involves contingent obligations amounting to $992 million. The largest part of this amount -- $920 million -- derives from the United States subscriptions to the callable capital of the World Bank, the Inter-American Development Bank, and the Asian Development Bank. This callable subscription, together with the similar subscriptions of other members, stands as a guarantee behind the Banks' borrowing in private capital markets and is to be called only if these Banks cannot meet their obligations to bondholders.

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The other element of contingent obligation, amounting to $72 million, involves loans made in dollars by the Fund for Special Operations of the Inter-American Development Bank but repayable in dollars or local currencies. The U.S. will have to maintain the value of the loan repayments only if made in dollars -- a highly unlikely event.

I must emphasize the remote nature of these contingent liabilities. Our callable capital obligations have never, as yet, been called and we do not expect calls in the future. We can make this prediction based on the sound financial condition of these institutions, their reserves, and the fact that this guarantee is backed not only by the United States but by other major countries as well.

Thus, we do not anticipate that these liabilities -- while constituting a contingent call upon U.S. Government resources analogous to other government guarantees -- will materialize.

Paid-in Capital

The third category of obligations involves paid-in capital subscriptions. This will involve $477 million flowing from certain present and planned future contributions to the three Banks mentioned above, plus the International Development Association.

It is only this $477 million that will result in budgetary expenditures. There will be no expenditures in fiscal year 1973 and $12 million in fiscal year 1974. The remaining amounts will be spread out in relatively small installments over a period of 12 years.

The total amount of obligations requiring appropriation resulting from the par value change now before you amounts to $2,225 million consisting of (a) obligations to the IMF -- $756 million; (b) contingent obligations -- $992 million; and (c) paid-in capital subscriptions -- $477 million. Our appropriation request has been rounded to a maximum of $2.25 billion because we cannot be precisely certain now of the exact amounts involved because maintenance of value is fixed only at the time that the United States communicates its formal par value change to the International Monetary Fund. It is my hope, in fact, the obligations will be less than $2,225 million. This is borne out by our experience with the 1972 appropriation which, when the final data were compiled, involved obligations of $1,578 million against a rounded appropriation of up to $1.6 billion.

As this summary suggests, there is a rough offsetting between increases in assets and liabilities as a consequence of devaluation. Most of the liabilities involve either exchanges of assets with the IMF or remote contingent liabilities.

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The increase in value of liquid international reserve assets totalling $1.4 billion -- which provides cash to the Treasury -- is almost three times as large as the liabilities on paid-in capital to the international financial institutions of $477 million -- which will eventually become a cash drain. Moreover, the budgetary impact of those increased liabilities is spread out over a long period of time.

I would end by stressing that maintenance of value is a legal obligation flowing from the devaluation and our membership in the international financial institutions. I strongly feel that this obligation should be met in timely fashion as it has been honored by other countries. The amounts involved are quite substantial. However, the outline I have given you today makes it clear that our appropriation request cannot be looked at in isolation but as part of a pattern of increases in assets and liabilities that are the direct consequences of the change in par value that we have recommended to the Congress.

Attachments

12c ANNEX A

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

ANNEX B

Financial Effects of U.S. Devaluation
(Explanatory Notes Attached)

	$ Millions		Accruing to:
I On U.S. Financial Statements			
A. Increase in Assets			
1. Increase in Value of Reserves			
Gold	1,165		Treasury General Fund
Special Drawing Rights (SDR)....	218		Exchange Stabilization F.
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 Fu
2. Federal Reserve Obligations in Foreign Currencies..............	196		Federal Reserve Resources
3. Increase in Repayment of Obligations to IMF			
For Currency Drawings........	150		Appropriations or Exchange of Assets
For SDR Allocations..........	278		Exchange Stabilization Fu
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			**Financed from:**
Increase in Obligation to make Additional Capital Subscription to the International Lending Institutions, if called...............		992	Appropriations
III. On Maximum Appropriation required		2,225	
IV. On Forecast Cash Expenditures			
FY 1973............................		0	
FY 1974............................		12	
FY 1975-1985.......................		40 per annum	

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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.

-- 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.

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.

Estimated Budgetary Outlays for Maintenance of Value
Fiscal Years
$ Millions

1972 Devaluation

	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	TOTAL
IDA	-	-	4	8	8	9	9	16	16	16	17	17	-	-	-	120
IBRD	-	.12	.94	-	-	-	-	-	-	-	8	12	12	9	8	50.06
IDB (ord. cap.)	-	-	2	2	2	2	2	2	2	2	5	5	5	5	5	41
IDB (FSO)	-	-	12	12	12	12	12	12	12	12	7	6	-	-	-	109
ADB	-	4.30	4.30	-	-	-	-	-	-	-	-	-	-	-	-	8.60
TOTAL (1972)	-	4.42	23.24	22	22	23	23	30	30	30	37	40	17	14	13	328.66

1973 Devaluation

	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	TOTAL
IDA	-	-	-	4	14	14	14	14	20	20	20	20	21	-	-	161
IBRD	-	-	-	1.3	-	-	-	-	-	-	10	16	15	15	14	71.30
IDB (ord. cap.)	-	-	-	-	3	3	3	3	3	3	9	9	10	9	9	64
IDB (FSO)	-	-	-	18	18	18	18	18	18	18	10	11	11	11	-	169
ADB	-	-	12	-	-	-	-	-	-	-	-	-	-	-	-	12
TOTAL (1973)	-	-	12	23.3	35	35	35	35	41	41	49	56	57	35	23	477.30
TOTAL (1972 & 1973)	-	4.42	35.24	45.3	57	58	58	65	71	71	86	96	74	49	36	805.96

Explanatory Note

The above figures represent estimated budgetary outlays arising from payments to the international development lending institutions in fulfillment of United States maintenance of value obligations relating to the paid-in capital of these institutions. With minor exceptions, payment has been made or will be made by letters of credit. Budgetary expenditures only arise as these letters of credit are drawn down. Drawdowns are made by each institution as the need arises for cash funds to pay for goods and services furnished to borrowers of these institutions. It is anticipated that drawdowns relating to maintenance of value obligations on IBRD and IDB dollar loans outstanding at the time of change in par value of the dollar will be spread out over the period of repayment of these loans, i.e., through fiscal 1986. With regard to IDA, funds relating to maintenance of value obligations on First, Second and Third Replenishments, respectively, will only be drawn down after other funds from the particular Replenishment have been exhausted.

February 23, 1973

ANNEX C
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SECRETARY GEORGE P. SHULTZ
PRESS CONFERENCE
PARIS, FRANCE
MARCH 16, 1973

Secretary Shultz: It almost seems as though this is something we do every Friday. But I hope not. We came here last week as you know, as we discussed in the press conference last week, in a spirit of cooperation to help solve a mutual problem; and I think that the discussions last week, the various discussions that were held during the week, and the outcome of the meeting today, are a very helpful result. And we feel that the spirit of cooperation has prevailed here, and that we have a set of things coming out of the Ministerial Meeting that will help to maintain orderly exchange markets, which is something that of course, we all have a stake in. So I would say, from the stand point of the United States, since we as others, value orderly exchange markets, this is a positive result, and we welcome it, and we welcome the spirit of cooperation and the opportunity for continuing consultations that the communique reflects. I'll be glad to take your questions.

Q.: Mr. Secretary, my office in New York informs me that the Treasury bill rate has gone up considerably this afternoon in rather hectic trading, on rumors that the Federal Reserve discount rate is going to be increased and the U.S. has made concessions to increase domestic corporate interest rates as part of the package. Could you say whether these rumors are true at all?

SHULTZ: Well, since the question is directed more particularly at Dr. Burns, I'd like to ask him to answer that.

BURNS: The Federal Reserve discount rate was not even mentioned by anyone at any time, and needless to say, whatever happens to the Federal Reserve discount rate happens in Washington, and nowhere else, and there is no immediate action being planned on that subject at all. So the rumor is false, completely so.

Q.: Mr. Secretary, what kind of commitments has the United States made?

SHULTZ: We have agreed -- well, we have agreed to the communique, and you've read the communique. I think that the central question that people have had on their minds is the question of intervention in order to maintain orderly exchange markets.

And we have said, as we said last week, we have no obligation to intervene; on the other hand, we stand prepared, in a flexible manner, on an ad hoc basis, case by case, and in consultation with our trading partners to use intervention where it may be helpful in maintaining orderly exchange markets. Now there are a variety of other things reflected in the communique, but I think that is a central issue that people have had on their minds, and I believe that the understandings and arrangements made will help to preserve a reasonable exchange market.

Q.: Mr. Secretary, could you give some examples of the actions to remove inhibitions on the inflow of capital into the United States?

SHULTZ: Well, there may be various things in mind, but an example -- let me just give one example: Chairman Mills of the House Ways and Means Committee suggested several weeks ago and has repeated his suggestion since then, that we consider removing the tax which is statutory on dividends and interest that flow to foreigners that is, non-U.S. citizens. Well, that is a type of measure that the Chairman suggests, we certainly want to consider. And we'll consider that, and it's an example.

Q.: Mr. Secretary, virtually every major point in this communique is phrased in terms of a possible review, if measure is deemed appropriate, reviewing actions that might be considered useful. On the basis of the lack of any clear commitment to take any of these moves, not only the immediate defense of the currency but the longer-term moves, what is the reasoning that leads the Ministers to believe that this is going to restore confidence in the market?

SHULTZ: Well, I think that your question presumes that there is no confidence in the market. And I think that the first point to make is that the markets have not been all that disorderly in the last couple of weeks. There has been a free market and there has been some movement. On the other hand, business has been transacted, and I think that it's likely that as the markets open on a more full basis, that we will see reasonable conditions. Now, at the same time, to the extent that problems arise as the future unfolds, we have set up a pattern of communication, and an ability through the use of swap lines and other methods, to deal with problems that may arise; and to deal with it in the framework of the very flexible system that is now in place. So I think, in the first place, we have not seen the extent of disorder that your question implies; and in the second place, there are measures here that will help maintain reasonable stability that we can take as time goes along.

Q.: Mr. Secretary, did the United States undertake any specific commitments?

SHULTZ: No, the extent of specificity as given in the communique, the -- you know, I think that the commitment to consult, the commitment to be willing to take steps to intervene if that can be helpful in maintaining order in exchange markets, is certainly something that we take very seriously. And it will help the United States just as it will help others. Now, that is not a commitment to do anything under some specified conditions, but a commitment to work in good will and in candor with our trading partners to solve problems as they may arise and the equipping of ourselves with an understanding through which we can do that.

Q.: Mr. Secretary, were any specific numbers discussed between the United States and its trading partners as to the margin that should prevail between the United States and the joint members of the float?

SHULTZ: No.

Q.: Mr. Secretary, are you saying that there hasn't been any important change in U.S. policy as a result of this meeting?

SHULTZ: Well, you want to put everything in terms of extremes. I think the point is that we have had these discussions with our friends here, and out of that has come a renewed spirit of cooperation, a reinforcement of certain patterns through which that can take place, and I'm sure that as problems arise, if they do, we will be able to draw on those patterns and that fund of cooperation and deal with these problems.

Q.: Mr. Secretary, is there any understanding between ourselves and our partners that any possible intervention would be aimed at maintaining a given system of exchange rates, as opposed to maintaining markets free of wild swings?

SHULTZ: Well, the thrust here is toward the maintenance of orderly market conditions, an orderly system, as distinct from a given set of rates. However, I would say that in our judgment, the rates that now exist are broadly reasonable. Now, the market will make its judgment, but in our view, the rates that have now been put in place as a result of the two devaluations of the dollar and other events are broadly reasonable rates. And we think their market is likely to settle out somewhere in this vicinity.

Q.: Mr. Secretary, the communique says that you're putting adequate resources for such operations -- intervention operations -- and it is envisaged that some of the existing "swap" facilities will be enlarged. Could you tell us what particular swap facilities will be enlarged?

SHULTZ: No. We will work on that through the central banks to assure ourselves that where these facilities are needed, they're in place and able to be used. But we don't want to be more specific than that.

Q.: Mr. Secretary, do you regard the results of this meeting as a temporary arrangement pending the adoption of a more permanent system? If so, how much time would you say you have, or should figure on, before going to something more permanent?

SHULTZ: We think that the events that led to last week's meeting and this week's meeting, while not cataclysmic in terms of world trade or anything of that kind, nevertheless underline the importance of working and working hard on the subject of long-term monetary reform. And I say that here, others said it in the meeting, it is said in the communique, and we think this is a matter of urgency, something that needs to be tended to, not as a matter of years, but as a matter of weeks and months and needs to be worked on very hard. So I think the answer to your question is that we see this as temporary, in the sense that we would like to see a broadly systematic system put into place, and of course we advanced on last September, and we have tried to develop that further, and we've discussed it some more, but we think, broadly speaking, that would be a good system. And we think it's important to try to get it into place as soon as possible, and I don't mean by that -- as I said -- years away, but months away. We think it's important to work on this with a sense of urgency and with a sense of conviction that this task can be achieved.

Q.: By the beginning of the summer, sir?

SHULTZ: Well, I don't want to try to set any particular dates down, but I think the spirit of a greater intensity of interest than we have seen is what we're trying to interject into this picture. And others have, too.

Q.: Mr. Secretary, when you say in the communique that official intervention in the exchange markets may be useful, would you also extend this perhaps to the gold market?

SHULTZ: Well, I don't believe it arose at all in the course of the discussions. And so that subject remains undiscussed at this particular meeting.

Q.: Mr. Secretary, do you consider that the exchange swap lines are now available for use by the U.S. and others?

SHULTZ: Well, they represent a network, they will have to be worked on, country by country, and that is one of the tasks that my friend Dr. Burns will be undertaking in his organization, in consultation, of course, with the Treasury.

Q.: I was not thinking of enlarging, but of making use of what exists now. Is that an option that is open to the U.S. as a matter of policy?

SHULTZ: Well, it's open. We have here a pattern through which we would expect to consult with people about our actions and about their actions, and, on the basis of that and on the basis of our analysis of any particular situation, to deal with it.

Q.: Mr. Secretary, recently Arthur Burns has stated that we must restore confidence in paper money. We have seen nothing in the communique about this problem, and naturally you are telling us that the problem of gold has not even been mentioned. May the U.S. try to go ahead on their own and try to demonetize gold in order to restore confidence in paper money, since there will be no other money than paper?

SHULTZ: Well, I think paper money is accepted around the world. I notice people accept francs in France and they accept dollars in the U.S., and I've noticed that even dollars are accepted somewhere else in the world from the U.S. so I don't think that there has been any tremendous loss of confidence, and as far as gold is concerned, I think I've said about all I care to say on that right here at this meeting.

Q.: Mr. Secretary, Americans living abroad who are....

SHULTZ: Yes, I know exactly what you are going to say. (Laugh from the audience).

Q.: With purchasing power amounting to something like 18 to 20 per cent, how long do you think it would take as the result of what the people have done in the past week to forestall that?

SHULTZ: Well, I think of course that the changes in exchange rates that have taken place over the last couple of years are designed to, in effect, price U.S. products more attractively in the U.S. domestic market and in markets abroad, so that we will be able to improve on our balance of trade and on our balance of payments. That's the idea of it. Right now, we are way out of balance, and we think that these steps that have been taken will help to bring about a better balance. What may happen in the future to some change in the exchange rates, I would not want to speculate about, but certainly we are not expecting the old rates to prevail right away. We still have a problem, and we think that the steps taken have now provided us with a reasonable set of exchange rates and we expect to see some results from that in terms of our balance of trade and balance of payments. But I know it's tough on those U.S. citizens living abroad in the embassies, and since I once had to deal with the Office of Management and Budget -- and still talk to those people -- all of the embassies have registered on me the point that their budget is not quite as good as it was when it was approved, so I've got that message.

Q.: Mr. Secretary, would you be kind enough to explain to us precisely what the situation is with the swaps. How much is outstanding, how much has been used, and where we stand right now? Because there has been a lot of talk about these swaps but I think that nobody quite understands where we are.

SHULTZ: Yes, this is something that is administered on behalf of the Government, on behalf of the Treasury, by our banker, so to speak, in international matters, the Federal Reserve System, so I think I'll ask Dr. Burns to respond to that.

DR. BURNS: These swap-buyings outstanding amount approximately to 11.5 billion dollars; the amount activated amounts approximately to 1.6 billion dollars.

Q.: Mr. Secretary, in chapter 7 of the communique, referring to the volatility of the Euro-currency market, it says that methods for reducing volatility will be studied, but there's specific mention only of the role of central banks. Is it planned also to take some measures on non-central bank capital involved?

SHULTZ: We've studied -- why don't you (Volcker) respond to that?

VOLCKER: I think at least two points are mentioned specifically. The central banks point is mentioned quite specifically; there is also a mention of reserve requirements as I recall it, which would apply generally to any kind of money in the Euro-dollar market.

Q.: Doesn't that apply only to the United States?

VOLCKER: No, no, these would be reserve requirements on banks operating in the Euro-dollar market which are off-shore operations and not regulated by any national authority. They are generally free of reserve requirements.

Q.: Well, then, which national market would it be referred to?

SHULTZ: Well, this is -- you questioned earlier the use of the word study -- I think we found in a number of these problems that instantaneous action is neither possible nor feasible because one of the questions that arises in this area is precisely, in this kind of international market, how does one divide up regulatory responsibilities so to speak, between the parent of the bank and the nationality of where they are offered. And that's a complex web that has to be looked at, among other problems.

Q.: Mr. Secretary, is the European taxpayer going to give more for European defense since certain people said to America you should pay less for Europe in order not to have a gap in deficits in your budget?

SHULTZ: Well, I think that question goes beyond the scope of these discussions here, and I'll just duck on that.

Q.: Mr. Secretary, perhaps this is for Dr. Burns. Quite a number of American banks in Europe this week -- the branches -- report that Federal Reserve examiners are on their premises looking among other things, at the foreign exchange operations. Does this have anything to do with the effort to encourage inflows to the U.S.?

BURNS: No, this is simply an effort on the part of the Federal Reserve to learn what it can about the recent flows, where they originated and in what amounts. It's a factual study we've undertaken.

Q.: Mr. Secretary, I'd like to ask when the next Group of 20 Ministerial Meeting is now scheduled, and when as a result of this you look for any fairly good upsurge of progress at that meeting?

SHULTZ: Well, the next meeting is scheduled for a week from Monday and Wednesday in Washington, and there will be before that a meeting of the Committee of 20 Deputies. Now, I think that, while there has been a lot of discussion and progress and papers produced, and so on, and there is an agenda for that meeting that has been set, certainly the events of the last few weeks emphasize the urgency of working at this problem;

and while I don't think that it's reasonable to expect any particular result out of the meeting that's coming up, I hope that we can transmit this sense of urgency all through the Committee of 20, and that we can set in motion procedures that will move the work along in a more speedy fashion in our judgment, anyway, than it's been going so far.

Q.: Mr. Secretary, paragraph four of the communique speaks of the determination to ensure orderly market, and it says the Ministers agreed on the basis for an operational approach. Could you describe or go into detail about that operational approach?

SHULTZ: I think we have already discussed that, and the operational approach is paragraph five, that is, the development of a pattern of consultation of swap lines designed to give us the ability to intervene flexibly in consultation, ad hoc, where we think it will do some good.

Q.: Mr. Secretary, do you intend the dollar to come back to a fixed parity one day?

SHULTZ: Well, we have outlined in the IMF speech a system that is basically a par value system designed to be more flexible than the system has been in the past, and you can read that speech and we haven't really changed our view about that. The bromide around for the last year or so has been that we need a system of par values that are easily adjustable. And we took that bromide too heart, or to head, and we tried to describe how such a system might be operated. And so we have put forward some ideas on that very subject. Well, I think we have another meeting that we have to go here -- alright, one more.

Q.: Mr. Secretary, at the bottom of paragraph seven you say the U.S. will review possible action to encourage a flow of Euro-currency funds back to the U.S. Could you give some examples of that?

SHULTZ: Yes, Paul, you ought to take that.

VOLCKER: Well, we actually, without going into great detail, there are -- perhaps Arthur should be more appropriately answering this -- and one example springs to mind: They have regulations which inhibit the flow of Euro-dollars to the U.S. that was put on in certain circumstances where it seemed desirable to inhibit flows of Euro-dollars into the

U.S. and they have had, in fact, out for comment for some time, a change in that regulation, and I presume they will make some decision. As to just what to do in that area -- I won't prejudge when, Arthur.

BURNS: Just a further word of explanation -- the present reserve requirement is 20 per cent against these flow amounts, and we are considering a change in that, have been considering it for a certain period of time.

Q.: That would mean lowering it, is that right?

SHULTZ: Yes, we have a proposal sent out to the banks for comment which would involve a lowering of that specific reserve requirement. We've taken no decision on that as yet.

Thank you very much.

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Department of the TREASURY NEWS

ASHINGTON, D.C. 20220 TELEPHONE W04-2041

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ATTENTION: FINANCIAL EDITOR

FOR RELEASE 6:30 P.M. March 19, 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 December 21, 1972 , and the other series to be dated March 22, 1973 , which were invited on March 13, 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 June 21, 1973		182-day Treasury bills maturing September 20, 1973	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv. Annual Rate
High	98.414 a/	6.274%	96.590	6.745%
Low	98.388	6.377%	96.579	6.767%
Average	98.399	6.334% 1/	96.583	6.759% 1/

a/ Excepting two tenders totaling $200,000
59% 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	$ 27,130,000	$ 12,130,000	$ 41,985,000	$ 3,735,000
New York	2,839,385,000	1,974,585,000	3,851,500,000	1,697,860,000
Philadelphia	33,755,000	13,755,000	26,115,000	5,015,000
Cleveland	26,270,000	26,270,000	40,465,000	10,315,000
Richmond	11,540,000	11,540,000	27,550,000	7,250,000
Atlanta	20,750,000	16,975,000	12,785,000	10,335,000
Chicago	238,030,000	146,970,000	352,385,000	16,940,000
St. Louis	46,840,000	37,840,000	55,690,000	15,870,000
Minneapolis	15,595,000	13,595,000	9,680,000	2,980,000
Kansas City	40,570,000	33,070,000	31,285,000	16,530,000
Dallas	37,930,000	20,110,000	37,105,000	5,705,000
San Francisco	129,190,000	93,190,000	199,800,000	8,550,000
TOTALS	$3,466,985,000	$2,400,030,000 b/	$4,686,345,000	$1,801,085,000 c/

b/ Includes $215,800,000 noncompetitive tenders accepted at the average price of 98.399
c/ Includes $116,200,000 noncompetitive tenders accepted at the average price of 96.583
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 6.53% for the 91-day bills, and 7.10% for the 182-day bills.

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FOR RELEASE AT 12 NOON, CDT
WEDNESDAY, MARCH 21, 1973

EXCERPTS FROM REMARKS
BY THE HONORABLE EDGAR R. FIEDLER
ASSISTANT SECRETARY OF THE TREASURY FOR ECONOMIC POLICY
BEFORE THE SECURITIES INDUSTRY ASSOCIATION
CHICAGO, ILLINOIS
MARCH 21, 1973

Around the turn of the year, the business and financial communities shared a widespread confidence that economic conditions were improving in almost every way. More recently, despite the clear evidence that business activity is growing vigorously, the economic headlines have featured some sour notes. In particular, there is great skepticism that inflation will remain under control -- that the Administration's goal to cut back the rate of inflation to 2 1/2 percent or less by the end of 1973 will be met.

Although that is an ambitious goal, it is attainable, because President Nixon has put the weight of meaningful policy actions behind it.

1. A comprehensive system of direct price and wage restraints continues in place. Although enforcement is mostly self-administered now, the rules and standards for responsible price and wage behavior have changed but very little. If any sector gets out of line, or requires special treatment for any reason, the Administration retains the authority and the will to reinstate fully mandatory controls -- as indeed it did with the oil industry early this month.

2. By far the most troublesome sector in the battle against inflation is food. In 1972 the vigorous expansion in consumer incomes created a sharp increase in the demand for foods, especially red meats. This,

coupled with a burgeoning demand from abroad and a decline in food supplies, caused a sharp upsurge in prices of raw farm products, which is now being transmitted to retail markets. This price bulge will only be temporary, however, as the Administration has taken a series of major steps to expand food production substantially in 1973 and beyond. Once these additional supplies reach the market, farm prices will move down rapidly. Consequently, the sharp rise in grocery store prices now in process will give way to a much slower rise in the second half of 1973. Indeed, the rate of increase may be close to zero by the end of the year.

3. In another action to keep prices in check, the Administration has announced its intentions to sell a large quantity of metals and other commodities now in excess supply in Government stockpiles.

4. Of all the important policy steps taken, the greatest need is to maintain a tight rein on the budget. We must not repeat the mistakes of 1965-1968 when, at a time of full employment, the combination of massive Federal deficits and an irresponsible monetary policy created a runaway economic boom and a spiralling inflation. If the economic expansion now underway were to continue unchecked, we could see that unhappy pattern repeated. To prevent it, President Nixon is determined to resist the enormous pressures for increasing spending on a wide range of Federal programs and to hold the budget to noninflationary levels.

The fight against inflation is far from over. Retail food prices will be especially troublesome in the next few months. Nevertheless, the Administration's major anti-inflationary offensive will have a meaningful impact on prices and wages during the course of 1973. Thus, we have a good, solid chance to slow the rate of inflation to 2-1/2 percent or less by the end of the year.

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FOR IMMEDIATE RELEASE March 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 29, 1973, in the amount of $4,205,120,000 as follows:

91-day bills (to maturity date) to be issued March 29, 1973, in the amount of $2,400,000,000, or thereabouts, representing an additional amount of bills dated December 28, 1972, and to mature June 28, 1973 (CUSIP No. 912793 QZ2) originally issued in the amount of $1,903,160,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,800,000,000, or thereabouts, to be dated March 29, 1973, and to mature September 27, 1973 (CUSIP No. 912793 RW8).

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 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

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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 29, 1973, in cash or other immediately available funds or in a like face amount of Treasury bills maturing March 29, 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 March 20, 1973

PERMANENT MAGNETS OF ALNICO OR CERAMIC MATERIAL FROM JAPAN ARE NOT BEING SOLD AT LESS THAN FAIR VALUE UNDER THE ANTIDUMPING ACT

Assistant Secretary of the Treasury Edward L. Morgan announced today a final determination that permanent magnets of alnico or ceramic material from Japan are not being, nor likely to be, sold at less than fair value within the meaning of the Antidumping Act of 1921, as amended. Alnico magnets consist of metal alloys, and are used in a large number of applications such as telephones, loudspeakers, and motors. Ceramic magnets have greater electrical resistence, are lightweight, and are used in electro-mechanical applications such as generator relays.

Notice of the determination will be published in the Federal Register of Wednesday, March 21, 1973.

A "Notice of Tentative Negative Determination" was published in the Federal Register of December 16, 1972. This notice invited interested persons to submit written views or arguments, or requests for an opportunity to present their views orally.

During the calendar year 1972, imports of permanent magnets of ceramic or alnico material imported from Japan were valued at approximately $3.3. million.

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

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FOR RELEASE ON DELIVERY
THURSDAY, MARCH 22, 1973

REMARKS BY THE HONORABLE SAMUEL R. PIERCE, JR.
GENERAL COUNSEL OF THE TREASURY
AT THE
NEW ORLEANS COST OF LIVING COUNCIL REGIONAL CONFERENCE
ON PHASE III
THURSDAY, MARCH 22, 1973
NEW ORLEANS, LOUISIANA
(At 9:00 A.M. CST)

PHASE III OF THE ECONOMIC STABILIZATION 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 restraints 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 had 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 regulations issued or rulings made by either the Pay Board or Price Commission.

Advisory committees were 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 also 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 goods.

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 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 Phase II, 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 principles 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 caused the 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

Phase III became effective on January 11, 1973. The Cost of Living Council was continued. The Price Commission and Pay Board and all advisory committees that existed under Phase II were terminated, and the authority of the Commission and Board as well as their staffs was 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 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 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 inconsistent with the standards or goals of the program, the 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. Recently, for example, the Council took its big stick out of the closet and hit certain oil companies with it by limiting their price increases, cancelling their term limit pricing authorizations, and by imposing upon them certain reporting requirements.

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 processors 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

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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 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 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.

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

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FOR IMMEDIATE RELEASE March 20, 1973

STATEMENT BY THE ACTING SECRETARY OF THE TREASURY
WILLIAM E. SIMON, ON THE RESIGNATION
OF THE COMPTROLLER OF THE CURRENCY
WILLIAM B. CAMP

President Nixon has announced that he is with deepest reluctance accepting the resignation of William E. Camp as Comptroller of the Currency.

On behalf of Secretary Shultz, I wish to express the Treasury's sense of loss at Mr. Camp's departure.

Mr. Camp served six Presidents of the United States and eleven Secretaries of the Treasury. Mr. Camp joined the Treasury as a clerk in 1937 and became the top official of the agency which administers the laws for 4,600 national banks and their foreign branches. He was first named Comptroller in 1966 and was reappointed by the President in 1972.

From the time he joined the Treasury, he has been a forthright advocate of competition in the banking industry. He has continually stressed that such competition will ultimately benefit the public -- through increased service and lower costs. Through his years of service, Mr. Camp has won the respect of government officials as well as leaders of the banking industry.

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

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FOR IMMEDIATE RELEASE March 21, 1973

ANTIDUMPING INVESTIGATION INITIATED
ON MANDELIC ACID FROM JAPAN

Assistant Secretary of the Treasury Edward L. Morgan announced today the initiation of an antidumping investigation on imports of mandelic acid from Japan. This acid is used as a primary ingredient for a pharmaceutical drug called methenanine mandelate, a urinary disinfectant.

Notice of this action will be published in the Federal Register of March 22, 1973.

Mr. Morgan's announcement followed a summary investigation conducted by the Bureau of Customs after receipt of a complaint alleging the likelihood of dumping in the United States. The information received tends to indicate that the prices of the merchandise sold or offered for sale for exportation to the United States are less than the estimated home market price.

During calendar year 1971 imports of mandelic acid from Japan were valued at $12,000.

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WASHINGTON, D.C. 20220 TELEPHONE WO4-2041

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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
SUBCOMMITTEE ON INTERNATIONAL FINANCE OF THE
HOUSE BANKING AND CURRENCY COMMITTEE
WEDNESDAY, MARCH 21, 1973, AT 11:00 A.M.

Mr. Chairman and Members of the SubCommittee:

You have asked that I appear again before this Sub-Committee to review developments in the international monetary area in the past two weeks, and their implications for the legislation before you concerning the par value of the dollar.

In that connection, I believe your record might usefully include three documents attached to this statement:

1) The Press Communique of the Ministerial Meeting of the Group of Ten and the European Economic Community, dated March 9, 1973, in Paris.

2) Statement by the Council of Ministers of the European Community, dated March 12, 1973, in Brussels.

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3) Press Communique of the Ministerial Meeting of the Group of Ten and the European Economic Community, dated March 16, 1973, in Paris.

As these documents indicate, broad agreement has been reached among the leading industrial nations on a cooperative approach aimed at assuring an orderly exchange rate system, dealing with speculative disturbances, and helping to speed the task of fundamental monetary reform.

To these ends, at the meeting of the Group of 10 with the Members of the European Economic Community on March 16, there was agreement "in principle that official intervention in exchange markets may be useful at appropriate times to facilitate the maintenance of orderly conditions ....." This does not imply an obligation to intervene generally to maintain given margins about par or central values. Instead, intervention, when considered necessary and desirable in the light of market conditions, will be handled in a flexible manner in close consultation with the authorities of the nation whose currency may be bought or sold.

Consistent with this overall framework, a number of

European countries have decided to maintain a 2¼-percent margin among their own currencies.

In addition, some countries have taken additional steps to discourage speculative capital flows, and the United States is reviewing actions that may be appropriate to remove inhibitions on the flow of capital to this country. More generally, it was also agreed to study urgently approaches toward dealing with the volatility of the Euro-currency markets and with the funding or consolidation of official currency balances. These matters are on the agenda of the Committee of 20 of the IMF.

Beyond these specific points, more general considerations were emphasized:

1) The need to deal effectively with domestic inflation; and
2) The goal of the greatest possible freedom for international trade and investment, and the avoidance of competitive changes of exchange rates.

Those participating in the series of meetings over recent weeks could not help but be struck by a sense of cooperation and agreement toward a common approach. Obviously, much remains to be done to assure a smooth transition to a durable and satisfactory monetary system in the future. But I feel there are solid grounds for optimism. The pressures of recent weeks have, I believe, helped precipitate forward progress toward achieving that combination of flexibility and stability in our monetary arrangements that will serve the interests of all.

The actual exchange rates prevailing in the market have, for the most part, not moved over a large range in the past week. Indeed, on Monday and Tuesday the exchange rates of the dollar vis-a-vis other leading currencies remained within a margin of $\pm 2\frac{1}{4}$ percent around the par values or central rates established following the announcement of our intended devaluation (taking account of the further small revaluation subsequently announced by Germany). This market performance, in the absence of intervention in dollar markets by the leading countries maintaining par or central values, is consistent with our judgment, and that of others, that the pattern of exchange rates established by our devaluation is broadly reasonable and realistic.

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Certainly, the events of the past two weeks in no way change our judgment as to the wisdom of the exchange rate realignment precipitating the proposed devaluation of the dollar. I hope the Congress will, with all deliberate speed, complete the necessary action on this legislation.

Attachments-3

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PRESS COMMUNIQUE
OF THE MINISTERIAL MEETING OF THE GROUP OF TEN
AND THE EUROPEAN ECONOMIC COMMUNITY,
9TH MARCH, 1973, IN PARIS

1. The Ministers and Central Bank Governors of the ten countries participating in the General Arrangements to Borrow* met in Paris on 9th March, 1973, under the Chairmanship of Mr. Valery Giscard d'Estaing, the Minister of the Economy and of Finance of France. Mr. P.-P. Schweitzer, Managing Director of the International Monetary Fund, took part in the meeting, which was also attended by Mr. Nello Celio, Head of the Federal Department of Finance of the Swiss Confederation, Mr. E. Stopper, President of the Swiss National Bank, Mr. Francois-Xavier Ortoli, President of the Commission of the European Economic Community, Mr. E. Van Lennep, Sec etary-General of the Organization for Economic Co-operation and Development and Mr. René Larre, General Manager of the Bank for International Settlements.

Mr. Ali Wardhana, President of the Committe of Twenty of the International Monetary Fund was specially invited to participate in this meeting.

2. They examined the international monetary situation in the light of the present crisis and had a broad exchange of views both on the origins of the crisis and on ways of dealing with it in a spirit of co-operation.

3. They agreed that the crisis was due to speculative movements of funds. They also agreed that the existing relationships between parities and central rates, following the recent re-alignment, correspond, in their view, to the economic requirements and that these relationships will make an effective monetary contribution to a better balance of international payments. In these circumstances they unanimously expressed their determination to ensure jointly an orderly exchange rate system

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* The Group of Ten comprises six of the member countries of the European Economic Community (Belgium, France, Germany, Italy, the Netherlands and the United Kingdom), as well as four other countries (Canada, Japan, Sweden and the United States). The other three member countries of the E.E.C., Denmark, Ireland and Luxembourg, also participated in this meeting.

european community

PRESS RELEASE

EUROPEAN COMMUNITY INFORMATION SERVICE

2100 M Street Northwest, Suite 707, Washington, D.C. 20037 Telephone: (202) 872-8350

New York Office: 277 Park Avenue, New York, N.Y. 10017 Telephone: (212) 371-3804

No. 12/1973

March 13, 1973

FOR IMMEDIATE RELEASE

COMMON MARKET PREPARES FOR EXCHANGE MARKETS' REOPENING

Washington -- March 13 -- Technical details concerning the joint Common Market currency float, announced yesterday in Brussels, will be worked out this week before the scheduled March 19 reopening of European exchange markets.

Following is an unofficial translation of the March 12 statement by the Council of Ministers:

The Council of the Community met on March 11, 1973, to discuss measures to deal with the international monetary crisis in light of the meeting of the enlarged "Group of Ten" which took place in Paris on March 9.

The Council decided that

-The maximum margin at any one time between the German mark, the Danish kroner, the Dutch florin, the Belgian franc, the Luxembourg franc, and the French franc is maintained at 2.25 per cent. For the member states which are maintaining a two-tier system of exchange rates, this commitment applies only to the regulated market.

-The central banks are no longer obligated to intervene in the fluctuation margins of the US dollar.

4. The Ministers and Governors are agreed that, for this purpose, a set of measures needs to be drawn up.

5. The formulation of these measures require a technical study which they have instructed their Deputies to undertake forthwith.

6. The Ministers and Governors have decided to meet again on Friday, 16th March, to draw joint conclusions on the basis of this study and take the decisions which are called for, so as to make it possible for the E.E.C. countries and Sweden to re-open their exchange markets on Monday, 19th March.

7. Finally, the Ministers and Governors considered that the recent disturbances underline the urgent need for an effective reform of the international monetary system. They decided to take the necessary steps to accelerate the work of the Committee of Twenty of the International Monetary Fund.

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-To protect the system against disruptive capital movements, the application of the March 21, 1972, directive will be reinforced and complementary instruments of control will be established to whatever degree is necessary.

The British, Irish, and Italian members declared that their governments intend to participate as soon as possible in the decision to maintain Community margins of fluctuation.

To this end, the Commission will present suggestions it considers adequate before June 30, 1973, when it is also due to report on preparation for short-term monetary support and conditions for the gradual pooling of reserves.

The Council agreed that, in the meantime, close and continuous cooperation in monetary matters will be maintained between the member states' authorities.

The representative of the German Government indicated his Government's intention to undertake before the exchange markets' reopening a limited adjustment in the central exchange rate of the mark to contribute to an orderly development in exchange relations.

The technical details of the matters mentioned above will be worked out in the next few days, taking into account the next meeting of the enlarged Group of Ten which will take place in Paris on March 16, so that they will become applicable on March 19, 1973, the scheduled date for the reopening of exchange markets.

* * *

Following is the translation of the March 12 declaration by the Commission's spokesman:

The Commission believes that the arrangements undertaken by the Council, which will avoid a disjointed float, ward off the risk of speculation.

Nonetheless, the Commission regrets that the Council was unable to decide upon measures in which all Community member states could participate, as the Commission had proposed.

The Community must still work toward economic and monetary union. Therefore, the nine nations must return as soon as possible to a Community system of exchange rates, as agreed a year ago.

That is why the Commission attaches the greatest importance to the mandate it has received to make suggestions to this end. It ascribes equal importance to the proposals it must make on the pooling of reserves and short-term support.

PRESS COMMUNIQUE

OF THE MINISTERIAL MEETING OF THE GROUP OF TEN

AND THE EUROPEAN ECONOMIC COMMUNITY,

16TH MARCH, 1973, IN PARIS

1. The Ministers and Central Bank Governors of the ten countries participating in the General Arrangements to Borrow* and the member countries of the European Economic Community* met in Paris on 16th March, 1973 under the Chairmanship of Mr. Valery Giscard d'Estaing, Minister of the Economy and of Finance of France. Mr. P.-P. Schweitzer, Managing Director of the International Monetary Fund, took part in the meeting, which was also attended by Mr. Nello Celio, Head of the Federal Department of Finance of the Swiss Confederation, Mr. E. Stopper, President of the Swiss National Bank, Mr. W. Haferkamp, Vice-President of the Commission of the European Economic Community, Mr. E. van Lennep, Secretary-General of the Organisation for Economic Co-operation and Development, Mr. René Larre, General Manager of the Bank for International Settlements and Mr. Jeremy Morse, Chairman of the Deputies of the Committee of Twenty of the I.M.F.

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* The Group of Ten comprises six of the member countries of the European Economic Community (Belgium, France, Germany, Italy, the Netherlands and the United Kingdom), as well as four other countries (Canada, Japan, Sweden and the United States). The other three member countries of the E.E.C., Denmark, Ireland and Luxembourg, also participated in this meeting.

2. The Ministers and Governors heard a report by the Chairman of their Deputies, Mr. Rinaldo Ossola, on the results of the technical study which the Deputies have carried out in accordance with the instructions given to them.

3. The Ministers and Governors took note of the decisions of the members of the E.E.C. announced on Monday. Six members of the E.E.C. and certain other European countries, including Sweden, will maintain $2\frac{1}{4}$ per cent margins between their currencies. The currencies of certain countries, such as Italy, the United Kingdom, Ireland, Japan and Canada remain, for the time being, floating. However, Italy, the United Kingdom and Ireland have expressed the intention of associating themselves as soon as possible with the decision to maintain E.E.C. exchange rates within margins of $2\frac{1}{4}$ per cent and meanwhile of remaining in consultation with their E.E.C. partners.

4. The Ministers and Governors reiterated their determination to ensure jointly an orderly exchange rate system. To this end, they agreed on the basis for an operational approach towards the exchange markets in the near future and on certain further studies to be completed as a matter of urgency.

5. They agreed in principle that official intervention in exchange markets may be useful at appropriate times to facilitate the maintenance of orderly conditions, keeping in mind also the desirability of encouraging reflows of speculative movements of funds. Each nation stated that it will be prepared to intervene at its initiative in its own market, when necessary and desirable, acting in a flexible manner in the light of market conditions and in close consultation with the authorities of the nation whose

currency may be bought or sold. The countries which have decided to maintain $2\frac{1}{4}$ per cent margins between their currencies have made known their intention of concerting among themselves the application of these provisions. Such intervention will be financed, when necessary, through use of mutual credit facilities. To ensure fully adequate resources for such operations, it is envisaged that some of the existing "swap" facilities will be enlarged.

6. Some countries have announced additional measures to restrain capital inflows. The United States authorities emphasized that the phasing out of their controls on longer-term capital outflows by the end of 1974 was intended to coincide with strong improvement in the U.S. balance-of-payments position. Any steps taken during the interim period toward the elimination of these controls would take due account of exchange market conditions and the balance of payments trends. The U.S. authorities are also reviewing actions that may be appropriate to remove inhibitions on the inflow of capital into the United States. Countries in a strong payments position will review the possibility of removing or relaxing any restrictions on capital outflows, particularly long-term.

7. Ministers and Governors noted the importance of dampening speculative capital movements. They stated their intention to seek more completeunderstanding of the sources and nature of the large capital flows which have recently taken place. With respect to Euro-currency markets, they agreed that methods of reducing the volatility of these markets will be studied intensively, taking into account the implications for the longer run operation of the international monetary system. These studies will address themselves, among other factors, to limitations on placement of official reserves in that market

by member nations of the IMF and to the possible need for reserve requirements comparable to those in national banking markets. With respect to the former, the Ministers and Governors confirmed that their authorities would be prepared to take the lead by implementing certain undertakings that their own placements would be graudally and prudently withdrawn. The United States will review possible action to encourage a flow of Euro-currency funds to the United States as market conditions permit.

8. In the context of discussions of monetary reform, the Ministers and Governors agreed that proposals for funding or consolidation of official currency balances deserved thorough and urgent attention. This matter is already on the agenda of the Committee of Twenty of the IMF.

9. Ministers and Governors reaffirmed their attachment to the basic principles which have governed international economic relations since the last war - the greatest possible freedom for international trade and investment and the avoidance of competitive changes of exchange rates. They stated their determination to continue to use the existing organisations of international economic co-operation to maintain these principles for the benefit of all their members.

10. Ministers and Governors expressed their unanimous conviction that international monetary stability rests, in the last analysis, on the success of national efforts to contain inflation. They are resolved to pursue fully appropriate policies to this end.

11. Ministers and Governors are confident that, taken together, these moves will launch an internationally responsible programme for dealing with the speculative pressures that have recently emerged and for maintaining orderly international monetary arrangements, while the work of reform of the international monetary system is pressed ahead. They reiterated their concern that this work be expedited and brought to an early conclusion in the framework of the Committee of Twenty of the IMF.

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

FOR IMMEDIATE RELEASE March 21, 1973

TREASURY'S MONTHLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders for $1,800,000,000, or thereabouts, of 346-day Treasury bills for cash and in exchange for Treasury bills maturing March 31, 1973, in the amount of $1,701,930,000. The bills of this series will be dated March 31, 1973, and will mature March 12, 1974 (CUSIP No. 912793 SN7).

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, Tuesday, March 27, 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.

(OVER)

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 April 2, 1973 , in cash or other immediately available funds or in a like face amount of Treasury bills maturing March 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 NEWS
OFFICE OF REVENUE SHARING
WASHINGTON, D.C. 20220 TELEPHONE WO4-8711

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FOR IMMEDIATE RELEASE March 21, 1973

REVENUE SHARING CHECKS
TOTALLING NEARLY $1.5 BILLION
WILL BE MAILED APRIL 6, 1973

Graham W. Watt, Director of the Office of Revenue Sharing of the U. S. Treasury Department, today said the mailing date for the next general revenue sharing checks will be April 6, 1973.

The checks for the entitlement period beginning January 1 and extending through June 30, 1973, will be mailed to over 38,000 State and local governments, Indian tribes and Alaskan villages. These checks, the third to be issued since the general revenue sharing program was signed into law by President Nixon on October 20, 1972, will total $1.49 billion. They will be calculated according to the formula prescribed by the Congress.

Mr. Watt stated that checks can be mailed on April 6 only to those governments that have returned to the Office of Revenue Sharing the previously distributed forms which contain the assurance by the Chief Executive Officer of the government that each government will conform to the requirements established in the general revenue sharing law. Mr. Watt stated that as of March 20, more than 32,000 governments had returned the assurance form to the Office of Revenue Sharing. He expressed concern that some of the governments not heard from might have failed to understand the importance of their official assurance that they would comply with the provisions of the Act and the regulations. Therefore, ORS is sending a last-minute notice to each of the governments who had not replied to the Office of Revenue Sharing by noon, March 20, 1973.

Mr. Watt said, "Although we are receiving assurance forms by the thousands, I would not like to think that any government would have the next revenue sharing payment withheld because of inadvertent failure to comply with the law and regulations. Therefore, I am directly advising each local and State government which has not yet filed the necessary assurance that by prompt action they may still qualify for the April payment by returning to this office the necessary assurance stating their intention to comply with the provisions of the Act. We are prepared to accept these assurances as late as March 27."

Mr. Watt noted that his office has received a number of inquiries concerning other reports by local and State governments required under the law. He stated that the Office of Revenue Sharing expects to mail the first Planned Use reports about April 9, 1973. Each recipient government must indicate on this one-page form the amount of general revenue sharing funds it plans to spend in each of the priority categories specified by the Congress. These plans must be published in a newspaper of general local circulation for public information and comment. A total of 60 days will be allowed for recipient governments to accomplish the necessary actions and return the Planned Use reports.

The law also requires recipient governments to report the way they actually spend general revenue sharing funds. The first of these reports will be required as of September 1, 1973. Mr. Watt added: "This summer we will be advising local and State governments of the reporting procedures necessary to implement that part of the law having to do with the actual expenditures of funds. We will provide sufficient advance notice so that each government may obtain the necessary financial information and report it to us in a form which we will provide to them. In the meantime, local and State governments need only to follow those accounting procedures which apply to all expenditures of public funds in their jurisdiction, in accordance with the requirements of the general revenue sharing regulations published by the Treasury Department in the Federal Register and previously distributed to the local and State governments." (37 FR 23100, Oct. 28, 1972)

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WASHINGTON, D.C. 20220 TELEPHONE W04-2041

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FOR RELEASE ON DELIVERY

EXERPTS OF REMARKS DELIVERED BY
THE HONORABLE SAMUEL R. PIERCE, JR.
GENERAL COUNSEL OF THE TREASURY
AT THE
NEW ORLEANS COST OF LIVING COUNCIL CONFERENCE
ON PHASE III
Thursday, March 22, 1973
New Orleans, Louisiana (9:00 AM CST)

Samuel R. Pierce, Jr., General Counsel of the Treasury Department, stated that in his opinion "the success of Phase III will depend on three factors:

- Whether Federal spending is held within the budgetary limits recommended by the Administration;
- Whether food costs are brought under control; and
- Whether the public will voluntarily comply with the standards for wage and price increases set by the Cost of Living Council during Phase III."

With respect to the need to hold down Federal spending Pierce said, "We know that no wage-price system, regardless of how ingeniously devised, can be successful and produce substantial results unless certain fundamental economic principles 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 caused the 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."

Mr. Pierce emphasized that the Administration is giving the food problem top priority in its anti-inflation efforts. He pointed out that price controls have been retained on food processors, distributors, and retailers, and the "Federal Government has 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 direct export subsidies for lard, broilers, and flour."

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Pierce further stated that as part of Phase III new advisory and decision-making machinery has been established to make certain that food prices receive top priority. He said a Cost of Living Council Committee on Food and a Food Advisory Committee (composed of people outside of Government) have been established to recommend steps to be taken by the Government and private sector to provide an adequate supply of food at reasonable prices, and that a new Food Industry Wage and Salary Committee has been formed to address wage and productivity problems in the food industry.

Pierce added that by the end of "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," and, in general, Phases I and II "received wide public acceptance and voluntary cooperation". He said he expected this same spirit of public cooperation and acceptance to continue through Phase III.

"Generally speaking", according to Pierce, "except for the food, health, and construction industries, Phase III will be a voluntary, self-administered program." However, he pointed out that the Cost of Living Council has "the power to impose additional mandatory controls whenever it is considered imperative to attain the goals of the program."

Pierce said, "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 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 inconsistent with the standards or goals of the program, the 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. Recently, for example, the Council took its big stick out of the closet and hit certain oil companies with it by limiting their price increases, cancelling their term limit pricing authorizations, and by imposing upon them certain reporting requirements."

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

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FOR RELEASE AT 10:00 A.M.

STATEMENT BY THE HONORABLE JAMES E. SMITH
DEPUTY UNDER SECRETARY OF THE TREASURY
BEFORE
SUBCOMMITTEE ON FINANCIAL INSTITUTIONS
SENATE COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS
THURSDAY, MARCH 22, 1973, 10:00 A.M.

Mr. Chairman, I am pleased to appear before this distinguished Committee today to discuss the Administration's position on S.1008, S.1256 and S.1257 dealing with the extension of deposit interest rate controls and other related matters. Accompanying me is Dr. Howard Beasley, the Special Assistant to the Deputy Secretary, who has played a major role in assessing various recommendations for financial institution reform.

As you know, the Administration transmitted to the Congress on Tuesday, March 13, a draft bill extending for one year, through May 31, 1974, the existing flexible authority for regulating time and saving deposit rates in Federally-insured financial institutions.

We believe that there is real merit in extending for a period of time the current deposit rate controls but only as

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an interim measure which will provide us the time to take a comprehensive look at the spectrum of laws which affect not only financial institutions but also consumer-savers.

The control of deposit rates is but one aspect influencing the competitive relationships among depository institutions and the return which consumer-savers receive on their savings accounts. The Administration deems a total review of the deposit institution structure and services, rather than of just one component, to be the appropriate method to assure that the public is best served by our financial institutions.

Since the inception of the present structure of rate controls in 1966, there has been a continuing debate as to the efficacy of ceiling rates on deposits - both from the standpoint of the institution and its ability to compete for funds and from the standpoint of the consumer and his right to a fair return on his savings. Unquestionably, these are two valid, and highly important, considerations. However, balanced analysis demands that we not only look at the liability structure of these institutions but also at their asset structure in order to determine whether or not they can generate sufficient earnings to pay freely competitive rates on deposits. This essential interdependence between assets and liabilities points up the difficulty of dealing with any of these institutional powers in isolation.

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I recognize, Mr. Chairman that the Administration's suggested approach, S.1257, is explicitly responsive only to the extension of the Regulation Q authority. We are recommending a one-year extension rather than a two-year extension. But implicit in the position of the Administration is the recommendation that no interim or isolated action be taken by the Congress with respect to NOW accounts.

We are, in fact, recommending that the Committee not adopt those sections of the proposed bills which deal with NOW accounts and the related extension of FDIC authority.

Our reasons for taking that posture are several:

One, we are not convinced by the data which we have thus far seen with respect to the development of the NOW accounts in both Massachusetts and New Hampshire that there is a solid case for Federal intervention at this moment.

We do not see a competitive disruption of such a magnitude, if indeed there is a competitive disruption at all, which would suggest that the Federal Government is compelled to intervene.

The NOW account represents a competitive innovation -- a competitive breakthrough which many commentators on the financial community will argue is inevitable with the growing role that technology is playing in the transfer of funds process. The benefit to the smaller consumer-saver seems obvious. We do not yet have sufficient empirical evidence to judge the impact on the offering institution.

We have in Massachusetts and New Hampshire a laboratory experiment, which, does not at this time appear to be highly disruptive in a competitive sense. Rather, this situaton provides us with an opportunity to see whether the permitting of negotiable orders of withdrawal out of interest-bearing accounts is indeed a feasible undertaking for financial institutions. There are those who will argue that it is not feasible, that these institutions simply cannot afford over any long period of time to provide this type of process out of an interest-bearing account, because of their asset structure.

The only way we are going to get a real answer to that question is to permit this experiment to continue.

It is an experiment that in no way threatens the safety of soundness of the institutions; it is a question of profitability. And obviously, if it proves to be an unprofitable situation, good management is either going to eliminate the service, or make modifications in it.

Lastly, our reason for urging you not to undertake a short-term interim solution is that we think that what is desperately needed is a comprehensive review of the competitive interrelationships of the thrift and commercial deposit institutions.

The Administration is now concluding the policy review of a comprehensive set of legislative recommendations which address the major issues with respect to the structure and regulation of deposit financial institutions.

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The Administration hopes to be able to announce these legislative recommendations in narrative form by early April, with transmittal of draft legislation to follow by early June of this year. For these reasons the Administration believes that a simple extension of existing interest rate control authority for one year, through May 31, 1974, is the appropriate approach at this time. Such an approach will provide sufficient time for Congress to consider carefully the Administration's comprehensive legislative recommendations.

It does not seem wise to us to attempt merely to patch up the existing financial system which the momentum of competitive forces, spurred on by consumer interests, see destined to resturcure. Our financial depository system is far too complex and important to attempt to redesign by using any method short of a comprehensive and thorough review.

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FOR IMMEDIATE RELEASE March 22, 1973

TREASURY ISSUES DUMPING FINDING WITH RESPECT TO CANNED BARTLETT PEARS FROM AUSTRALIA

Assistant Secretary of the Treasury Edward L. Morgan announced today that he has issued a dumping finding with respect to canned Bartlett pears from Australia. The finding will be published in the Federal Register of Friday, March 23, 1973.

On December 1, 1972, the Treasury Department advised the Tariff Commission that canned Bartlett pears from Australia were being sold at less than fair value within the meaning of the Antidumping Act, 1921, as amended.

On March 1, 1973, the Tariff Commission issued a determination that an industry in the United States was being injured by reason of the importation of canned Bartlett pears from Australia sold, or likely to be sold, at less than fair value within the meaning of the Antidumping Act, 1921, as amended.

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

During the period of January through August 1972, canned Bartlett pears valued at approximately $567,000 were imported from Australia.

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Department of the TREASURY
OFFICE OF REVENUE SHARING
WASHINGTON, D.C. 20220
NEWS
TELEPHONE WO4-8711

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New telephone No. 634-5191

March 22, 1973

MEMO TO CORRESPONDENTS:

Please note that comments on the proposed final regulations regarding Title I of the State and Local Fiscal Assistance Act of 1972(General Revenue Sharing) are on public view in the Department of the Treasury Library, Room 5004, Main Treasury Building.

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FOR IMMEDIATE RELEASE
THURSDAY, MARCH 22, 1973

HEARING ON PROPOSED REGULATIONS
UNDER THE STATE AND LOCAL FISCAL ASSISTANCE ACT of 1972

March 26, 1973 - 10:00 a.m.
Conference Room "B"
Departmental Auditorium
Washington, D. C.

AGENDA FOR PUBLIC HEARING

In re: Proposed regulations under the State and Local Fiscal Assistance Act of 1972.

Date: March 26, 1973.

Place: Conference Room B, Departmental Auditorium Constitution Avenue, N. W. (between 12th and 14th Sts., N.W.), Washington, D. C.

There follows a list of persons who have requested the opportunity to testify with respect to the proposed regulations 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 following list shows the order in which the testimony of the persons speaking on this subject has been scheduled:

Honorable Louis Stokes — 10 min.
Congressman - 21st Congressional District, Ohio

Wayne Anderson City Manager Alexandria, Virginia National League of Cities and U. S. Conference of Mayors	10 min. 10 min.
William G. Mullen National Newspaper Association	10 min.
Timothy L. Jenkins) or Maurine R. Cooper) The Match Institution	10 min.
Frank A. Kirk, Director Department of Local Government Affairs State of Illinois	10 min.
J. O. Spiller Director of State Finance State of Oklahoma	10 min.
Seth A. Armen Office of State Planning and Management Commonwealth of Massachusetts	10 min.
David A. Bucove Chairman of Legislative Committee Indiana Library Trustee Association	10 min.
M. Carl Holman, President The National Urban Coalition	10 min.
Dr. Ralph D. Abernathy Southern Christian Leadership Conference	10 min.
Jesse Jackson Peoples United to Save Humanity (PUSH)	10 min.
Ms. Johnnie Tillman National Welfare Rights Organization	10 min.
George H. Esser, Jr., Executive Director) or Harry Bowie, Associate Director) Southern Regional Council, Inc.	10 min.

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Ms. Barbara W. Moffett 10 min.
Community Relations Division
American Friends Service, Inc.

Ms. Ann Scott 10 min.
Vice President for Legislation
National Organization for Women

William L. Taylor 10 min.
Center for National Policy Review

Clarence Mitchell 10 min.
N.A.A.C.P.

Harold C. Fleming 10 min.
Chairman, Task Force on Federal Program Coordination
Leadership Conference on Civil Rights

Leon Shull 10 min.
National Director
Americans for Democratic Action

Ed Darden 10 min.
Movement for Economic Justice

Richard D. Warden 10 min.
Assistant Legislative Director
United Auto Workers

Henry M. Ramirez 10 min.
Cabinet Committee on Opportunities for
Spanish Speaking People

Stuart R. Benson 10 min.
Lawyers Committee for Civil Rights under Law

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FOR IMMEDIATE RELEASE March 22, 1973

IMPACT OF RECENT INTERNATIONAL CURRENCY REALIGNMENTS ON TREASURY DEPARTMENT ADMINISTRATION OF ANTIDUMPING ACT

Edward L. Morgan, Assistant Secretary of the Treasury for Enforcement, Tariff and Trade Affairs, and Operations, today issued a statement regarding the impact of recent international currency realignments on the Treasury Department's administration of the Antidumping Act of 1921, as amended. The purpose of this announcement is to reemphasize the interrelationship between such realignments and Treasury Department antidumping investigations. An earlier Treasury statement on this subject was released on March 30, 1972.

In the normal situation, dumping takes place when merchandise is sold by a foreign exporter to a purchaser in the United States at a lower price than in the exporter's home market, i.e., "less than fair value," and these sales injure U.S. industry. The recent changes in the market rate of the dollar in relation to certain foreign currencies have effectively increased the home market price of foreign merchandise, as expressed in dollars. Thus sales at less than fair value may result from the changes in the market rate of the dollar unless foreign exporters take appropriate actions to adjust prices.

The Department of the Treasury recognizes that immediate price adjustments may not always be possible. Accordingly, no price discrepancies resulting solely from the currency realignments will be taken into account in fair value investigations with respect to relevant transactions taking place within 45 days of the exchange rate changes.

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ATTENTION: FINANCIAL EDITOR

FOR RELEASE 6:30 P.M. March 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 December 28, 1972 , and the other series to be dated March 29, 1973 , which were invited on March 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 June 28, 1973		182-day Treasury bills maturing September 27, 1973	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv. Annual Rate
High	98.430	6.211%	96.657	6.613%
Low	98.410	6.290%	96.644	6.638%
Average	98.420	6.251% 1/	96.647	6.632% 1/

53% of the amount of 91-day bills bid for at the low price was accepted
87% of the amount of 182-day bills bid for at the low price was accepted

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	Applied For	Accepted
Boston	$ 31,920,000	$ 21,665,000	$ 43,540,000	$ 3,340,000
New York	2,949,155,000	2,032,040,000	3,643,560,000	1,620,505,000
Philadelphia	36,735,000	31,735,000	42,430,000	23,870,000
Cleveland	29,380,000	29,335,000	50,280,000	12,715,000
Richmond	31,590,000	12,590,000	24,690,000	5,575,000
Atlanta	23,360,000	21,360,000	27,270,000	11,560,000
Chicago	281,055,000	106,380,000	238,550,000	34,775,000
St. Louis	54,695,000	38,255,000	44,000,000	12,500,000
Minneapolis	24,255,000	12,255,000	20,865,000	4,115,000
Kansas City	37,010,000	25,205,000	31,125,000	16,400,000
Dallas	33,030,000	11,030,000	50,170,000	7,740,000
San Francisco	124,000,000	58,930,000	407,420,000	53,040,000
TOTALS	$3,656,185,000	$2,400,780,000 a/	$4,623,900,000	$1,806,135,000 b/

a/ Includes $221,665,000 noncompetitive tenders accepted at the average price of 98.420
b/ Includes $122,895,000 noncompetitive tenders accepted at the average price of 96.647
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 6.44% for the 91-day bills, and 6.96% for the 182-day bills.

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THE DEPARTMENT OF THE TREASURY 1789

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FOR RELEASE ON DELIVERY

STATEMENT BY THE HONORABLE JOHN M. HENNESSY
ASSISTANT SECRETARY OF THE TREASURY FOR INTERNATIONAL AFFAIRS
BEFORE THE
SUBCOMMITTEE ON MULTINATIONAL CORPORATIONS OF THE
SENATE FOREIGN RELATIONS COMMITTEE
WEDNESDAY, MARCH 28, 1973, AT 10:00 A.M.

Mr. Chairman and Members of the Subcommittee:

You have asked us to review the record of lending to Chile by the international development institutions since November 1970, when Salvador Allende was elected President of Chile. You have also asked me to comment on the contacts between the Treasury Department and the International Telephone and Telegraph Corporation and any role that company may have played in influencing Treasury Department views in this area.

There are three international development lending institutions from which Chile or Chilean nationals are eligible to borrow. These are the World Bank, the International Finance Corporation (IFC) and the Inter-American Development Bank (IDB). Chile is not eligible to borrow from the International Development Association, since lending by this institution is limited to the poorest of the developing countries.

The record of international institution lending is as follows:

In the World Bank, just before the close of its fiscal year in June 1970, three loans were made to Chile totaling $18.9 million.

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Subsequently, monthly reports of projects under consideration circulated to the Executive Board of the World Bank and IFC show that at various times a total of eight projects involving possible loans to Chile or its nationals were under review. These reports to the Executive Board also disclose that no loans have been made since the election by either institution and no loans are now under active consideration.

In the IDB, operations reports to the Board of Directors indicate that two loans were under consideration by the staff in the pre-November 1970 period. Both loans were for educational development -- one of $7 million to the Universidad Catolica de Chile and another of $4.6 million to the Universidad Austral de Chile. These loans were brought before the Executive Board of the Bank and were approved on January 14, 1971. No loans have been made by IDB to Chile since that time. The Bank staff now has a number of investment proposals under technical review.

In years prior to 1971, Chile had been a major recipient of development assistance provided through the multilateral lending institutions. Since their inception Chile has received over $270 million in loans from the World Bank Group and $312 million from the IDB. The major decline in lending is explained by a number of factors.

Initially, with a new government coming to power in Chile on a platform calling for far-reaching changes in the economic structure of the country, it was appropriate for the development banks to wait until the new administration's development program had been formulated before commencing new lending programs. The banks place great emphasis

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on the economic and financial condition of the borrower in making loans, and had to be concerned about how the proposed structural changes would affect the Chilean economy, and its ability to utilize and repay foreign borrowings. Their charters make the assurance of repayment an explicit requirement.

In point of fact, over the past 2 years the performance of the Chilean economy has been poor and a major reason for the present lack of new lending by the international development institutions. This was brought into sharp focus by World Bank President Robert McNamara at the meeting of the United Nations Economic and Social Council in October of 1972. McNamara stated that a primary condition for bank lending which Chile had failed to meet was a soundly managed economy with a clear potential for utilizing additional funds effectively.

McNamara indicated that rampant inflation, a balance of payments deficit of $370 million for 1972, and successive annual losses in net foreign exchange reserves, even after Chile had suspended most payments on its external debts, were grounds for the Bank's decision not to initiate new projects in Chile. He made the further point that no amount of external financial assistance could substitute for needed internal measures and under present conditions it was simply impossible for Bank funds to be used productively for the benefit of the Chilean people and with reasonable possibility of repayment which the Bank's Articles of Agreement required.

Thus, if for no other reason, the international development banks have not been lending to Chile because of problems of creditworthiness. But there are two other factors -- debt repayment record and fulfillment of international obligations -- which also apply to this situation.

In the case of Chile, there is a general debt repayment problem and particular problems of debt repudiation. In November 1971, Chile declared a unilateral moratorium on its external public debt, due to its precarious balance of payments situation. Although a multilateral agreement was reached in April 1972 on rescheduling of 1971-72 maturities, Chile is again in default on repayments due in 1973 and is behind schedule on repayments to certain of the international institutions.

In addition, there are 2 cases of actual debt repudiation. Chile has repudiated a $153 million debt owed to the Anaconda Copper Corporation. It has unilaterally disallowed $8 million of a government-guaranteed debt to the Kennecott Copper Company, and it has defaulted on payments on the remaining debt to Kennecott that was recently assumed by the Overseas Private Investment Corporation.

Any bank -- whether for development or other purposes -- must take importantly into account a country's situation on paying existing international obligations when considering the granting of new loans. When the most recent repayment record is questionable, common sense alone would dictate a go slow policy in approving loans.

Chile's eligibility for new loans has also been adversely affected by its expropriation without compensation of the Kennecott Copper Company and the Anaconda Copper Corporation, as well as the intervention

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of the International Telephone and Telegraph Corporation with the subsequently announced intention of expropriating that company. Adequate compensation is being effectively denied through the unprecedented and illegal deduction of alleged excess profits. Moreover, Chile has failed to provide the companies with any genuine mode of appeal of the government's decisions -- a clear denial of justice under international law. These actions are in violation of international law.

Because of the importance of these two factors -- debt repayment record and fulfillment of international obligations, especially those concerning compensation for expropriation -- the World Bank has developed a formal policy position on these two questions. The World Bank will not lend to countries that have defaulted on private debt obligations or expropriated foreign private investments without compensation unless there is evidence that satisfactory progress is being made toward settlement of the dispute. This policy came about originally because of the Bank's concern over defaults on external bond issues held by foreign private investors. The Bank felt that it had a direct stake in the principle of repayment on international bonds in view of its heavy reliance on private capital markets as a source of its own funds. The Bank's policy has evolved to include -- for similar underlying reasons -- situations where expropriation of direct investments takes place.

The United States has a policy similar to that of the World Bank. On January 19, 1972, in a statement on "Economic Assistance and Investment Security in Developing Nations," the President took the position that when a country expropriates a significant U.S. interest without making reasonable provision for compensation to U.S. citizens, there will be a presumption that the United States will not extend bilateral economic benefits to the expropriating country unless and until it is determined that the country is taking reasonable steps to provide adequate compensation or that there are major factors affecting U.S. interests which require continuance of all or part of these benefits. The same presumption applies to the multilateral institutions. In the face of expropriation without compensation, the United States will withhold its support from loans to the expropriating country under consideration in the multilateral development banks.

Congressional policy has also dictated a United States position in opposition to lending by the international financial institutions to countries that expropriate American-owned property without compensation. This is not a new concern but has run through the history of the United States foreign assistance program. You are all aware of the Hickenlooper Amendment.

More recently, Congress has provided even more specific instructions affecting U.S. voting in international development banks in the form of the Gonzalez Amendment, adopted in March, 1972. That amendment requires a negative vote against loans to countries that expropriate American property without compensation unless compensation has been made, or good-faith negotiations are in progress leading to prompt, adequate and effective compensation under international law, or the dispute has been submitted to arbitration.

The formalization, through a policy statement, of the President's position on expropriation without compensation, as well as the expression of Congressional policy contained in the Gonzalez Amendment, can be explained in part by the expropriations that have occurred in recent years, including the Chilean expropriations. In dealing with this problem, it is necessary for the Executive Branch to follow the situation closely and to obtain current information both from the American companies and the country involved. This is, in fact, required by the President's investment security statement and is inherent in the Gonzalez Amendment which calls upon the President to make an assessment of whether good-faith negotiations aimed at providing compensation are in progress. Information comes to the United States from various sources -- from foreign embassies and from our embassies abroad, among others. It also comes to the United States from direct contacts with American businessmen.

A procedure has been developed for dealing with the facts and opinions obtained from these information sources. An inter-agency group under the chairmanship of the State Department has been established under the Council on International Economic Policy to review expropriation cases and to recommend courses of action for the United States Government. In matters concerning votes in the international financial institutions, the advice of the CIEP group, as well as the National Advisory Council on International Financial Policies, is conveyed to the Secretary of the Treasury, to whom the President has delegated responsibility for instructing the U.S. Executive Directors on voting where Gonzalez Amendment questions are involved. In the case of the Chilean expropriations, we have attempted to stay on top of factual developments, and this has included contacts with all the American companies involved, including ITT.

In closing, I must emphasize that the decisions on U.S. Government policy in expropriation matters are strictly determined by the overall national interests of the United States. More specifically, as applied to the multilateral development banks, United States Government policy has been formulated on the basis of the long-standing policies of the institutions themselves, as well as by Presidential policies and Congressional directives.

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FOR IMMEDIATE RELEASE March 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 April 5, 1973, in the amount of $4,202,790,000 as follows:

91-day bills (to maturity date) to be issued April 5, 1973, in the amount of $2,400,000,000, or thereabouts, representing an additional amount of bills dated January 4, 1973, and to mature July 5, 1973 (CUSIP No. 912793 RJ7), originally issued in the amount of $1,901,105,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,800,000,000, or thereabouts, to be dated April 5, 1973, and to mature October 4, 1973 (CUSIP No. 912793 RX6).

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, April 2, 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 April 5, 1973, in cash or other immediately available funds or in a like face amount of Treasury bills maturing April 5, 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 March 27, 1973

TREASURY ISSUES COUNTERVAILING DUTY ORDER AGAINST REFRIGERATORS, FREEZERS, OTHER REFRIGERATING EQUIPMENT AND PARTS THEREOF FROM ITALY

Assistant Secretary of the Treasury Edward L. Morgan announced today the issuance of a countervailing duty order upon imports of refrigerators, freezers, other refrigerating equipment and parts thereof from Italy.

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.

The order will be published in the Federal Register of March 28, 1973. Countervailing duties will be assessed 30 days after publication in the Customs Bulletin of April 11, 1973. The duties will thus become effective May 11, 1973.

Based upon information presently available, complete refrigerators receive payments of 17.85 lire per kilo (or approximately 1.5 cents per pound), insulated cold cabinets 14.82 lire per kilo (approximately 1.2 cents per pound), and on refrigerating equipment 21.24 lire per kilo (approximately 1.7 cents per pound). The date of entry of the merchandise into the United States will be the effective date for conversion purposes.

During the period calendar year 1972, imports of Italian refrigerators, freezers, other refrigerating equipment and parts thereof totaled approximately $45,200,000.

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

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FOR IMMEDIATE RELEASE March 27, 1973

WITHHOLDING OF APPRAISEMENT OF
GERMANIUM POINT CONTACT DIODES FROM JAPAN

Assistant Secretary of the Treasury Edward L. Morgan announced today the withholding of appraisement of germanium point contact diodes from Japan 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 diodes are solid state semiconductors used in various consumer electronic products.

The decision will appear in the Federal Register of March 28, 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. Germanium point contact diodes produced by Tokyo Shibaura Electric Co., Ltd., (Toshiba) of Tokyo, Japan, are excluded from this action, since 100 percent of its export sales during the period under consideration were examined, and no sales by Toshiba 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 through May 1972, imports of germanium point contact diodes from Japan were valued at approximately $87,500.

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MEMO FOR CORRESPONDENTS: March 27, 1973

Treasury Under Secretary for Monetary Affairs Paul A. Volcker will deliver the Frank D. Graham Memorial Lecture, 8:00 p.m., March 29, 1973, Woodrow Wilson School, Auditorium, Princeton University, Princeton, New Jersey. The Lecture is entitled "The Evolution of Monetary Reform". There will be no texts available, but members of the press are invited to attend the lecture in Princeton and the question and answer session that will follow. The lecture will be transcribed for future publication.

Contacts: Princeton: Barclay Bollas, (609) 452-3600

Treasury: Charles Arnold, 964-2041

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

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MEMORANDUM TO CORRESPONDENTS: March 27,1973

The President today approved an amendment of the rules and regulations governing inspection of income tax returns by the Department of Agriculture of persons having farm operations.

The amendment limits the type of data available to the Department of Agriculture from its inspection of income tax returns. The Department of Agriculture was granted authority to inspect income tax returns of individuals, corporations, and other taxpayers having farm operations in order to obtain data as to the farm operations of such taxpayers under regulations approved January 17, 1973. Specifically, under the amendment approved today, the only tax return data which will be made available to the Department of Agriculture are the names, addresses, taxpayer identification numbers, type of farm activity, and one or more indicia of size of farm operations such as gross income from farming or gross sales of farm products. Similarly, only the aforementioned items will be available for inspection on returns by authorized employees of the Department of Agriculture.

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The information obtained will be used by the Department of Agriculture as part of the basis for statistical surveys of farming operations to be conducted jointly with the Department of Commerce. Further, the information obtained from income tax returns is to be used solely for statistical purposes. The amendment approved today does not affect the new procedures and safeguards contained in the regulations approved January 17, 1973, which provide for more protection than in the past for the confidentiality of data obtained from the inspection of returns.

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(T.D.)

TITLE 26--INTERNAL REVENUE

CHAPTER I--INTERNAL REVENUE SERVICE,
DEPARTMENT OF THE TREASURY

SUBCHAPTER F--PROCEDURE AND ADMINISTRATION

[REGULATIONS ON PROCEDURE AND ADMINISTRATION]

PART 301--PROCEDURE AND ADMINISTRATION

Inspection by Department of Agriculture of income tax returns made under the Internal Revenue Code of 1954 of persons having farm operations

DEPARTMENT OF THE TREASURY,
Washington, D. C. 20224

TO OFFICERS AND EMPLOYEES OF
THE INTERNAL REVENUE SERVICE
AND OTHERS CONCERNED:

Pursuant to section 6103 (a) of the Internal Revenue Code of 1954, as amended (26 U.S.C. 6103 (a)), and the Executive order signed this date concerning inspection by the Department of Agriculture of income tax returns made under the Internal Revenue Code of 1954 of persons having farm operations, the Regulations on Procedure and Administration (26 CFR 301) under such section are amended as follows:

Section 301.6103 (a)-108 is amended by revising paragraph (c). The amended provision reads as follows:

§ 301.6103 (a)-108 Inspection by Department of Agriculture of income tax returns made under the Internal Revenue Code of 1954 of persons having farm operations.

(a) In general. * * *

(c) Data available. The Secretary of the Treasury, or any officer or employee of the Department of the Treasury with the approval of the Secretary, may furnish the Department of Agriculture (for the purpose of obtaining data as to the farm operations of such persons) with the names, addresses, taxpayer identification numbers, type of farm activity, and one or more measures of size of farm operations such as gross income from farming or gross sales of farm products. Inspection of such returns shall be limited to inspection of the data enumerated above and shall be in accordance with permission granted by the Secretary of the Treasury pursuant to this section. Upon receipt of a request for inspection approved by the Secretary of the Treasury, any officer or employee of the Internal Revenue may make such returns available

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for inspection, provided inspection is limited to the data specified above, in an office of the Internal Revenue Service by any duly authorized officer or employee of the Department of Agriculture or may make the data enumerated above on such returns available to such Department.

*   *   *   *   *

Because this Treasury decision constitutes a general statement of policy and establishes rules of Departmental practice and procedure, it is found that it is unnecessary to issue this Treasury decision with notice and public procedure thereon under 5 U.S.C. 553 (b), or subject to the effective date limitation of 5 U.S.C. 553 (d).

This Treasury decision shall be effective upon its filing for publication in the Federal Register.

Secretary of the Treasury

Approved:

The White House

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EXECUTIVE ORDER

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INSPECTION BY DEPARTMENT
OF AGRICULTURE OF INCOME
TAX RETURNS MADE UNDER
THE INTERNAL REVENUE CODE
OF 1954 OF PERSONS HAVING
FARM OPERATIONS

By virtue of the authority vested in me by section 6103 (a) of the Internal Revenue Code of 1954, as amended (26 U.S.C. 6103 (a)), it is hereby ordered that income tax returns made for taxable years beginning on or after January 1, 1967, of persons having farm operations shall be open to inspection to the extent readily available in the Internal Revenue Service by the Department of Agriculture as may be needed for statistical purposes only, in accordance and upon compliance with the rules and regulations prescribed by the Secretary of the Treasury in

Treasury Decision 7255, relating to inspection by the Department of Agriculture of certain income tax returns, approved by the President on January 17, 1973, and the amendment thereto approved by me this date.

THE WHITE HOUSE,

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. March 27, 1973

RESULTS OF TREASURY'S MONTHLY BILL OFFERING

The Treasury Department announced that the tenders for $1,800,000,000, or thereabouts, of 346-day Treasury bills to be dated March 31, 1973, and to mature March 12, 1974, which were offered on March 21, 1973, were opened at the Federal Reserve Banks today.

The details of this issue are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:

High	- 93.741	Approx. equiv. annual rate 6.512% per annum	
Low	- 93.606	Approx. equiv. annual rate 6.653% per annum	
Average	- 93.642	Approx. equiv. annual rate 6.615% per annum	1/

(100 % 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	$ 15,910,000	$ 910,000	
New York	2,529,865,000	1,547,865,000	
Philadelphia	18,125,000	2,125,000	
Cleveland	3,365,000	3,365,000	
Richmond	31,735,000	13,705,000	
Atlanta	10,660,000	3,660,000	
Chicago	184,320,000	90,320,000	
St. Louis	42,070,000	28,070,000	
Minneapolis	24,110,000	16,110,000	
Kansas City	17,915,000	7,885,000	
Dallas	24,220,000	13,220,000	
San Francisco	118,770,000	72,745,000	
TOTALS	$3,021,065,000	$1,799,980,000	2/

1/ This is on a bank discount basis. The equivalent coupon issue yield is 7.05%.

2/ Includes $44,280,000 entered on a noncompetitive basis and accepted in full at the average price shown above.

Department of the TREASURY
NEWS
OFFICE OF REVENUE SHARING
WASHINGTON, D.C. 20220
TELEPHONE W04-8711

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FOR RELEASE AT 10:00 A.M.,EST
THURSDAY, MARCH 29, 1973

NEW TELEPHONE NUMBER --634-5191

WATT ANNOUNCES STATE ALLOCATIONS FOR FIRST HALF OF 1973

Graham W. Watt, Director of the Office of Revenue Sharing, today announced state allocations of general revenue sharing funds for the first half of 1973. He stated that each State's allocation will be greater than the 1972 amounts.

The increased appropriations and distribution flow from the use of more recent population data, and the use of actual rather than estimated 1972 state income tax collections.

The total amount allocated for the first half of 1973 is $2,989,890,000, up $339,229,144 from the $2,650,660,856 allocated for the second half of 1972.

The amounts announced today will be paid in two equal installments directly to each eligible unit of government. The first payment will be mailed on April 6, and the second in early July. The detailed listing of amounts to be paid to each unit of government will also be available on April 6.

The attached table shows the total amount allocated to all units of government in each State. One-third of the amount shown for each State goes to the State government, and two-thirds goes to the local governments.

Attachment

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GENERAL REVENUE SHARING ALLOCATIONS BY STATE
Third Entitlement Period: Jan. 1 to June 30, 1973

State	Total Amount Allocated*	Increase Over Allocation for July 1 - Dec. 31, '72
Alabama	50678132.	11.9%
Alaska	3860622.	16.8%
Arizona	30254182.	20.5%
Arkansas	30797028.	12.9%
California	322088752.	15.0%
Colorado	31391870.	15.2%
Connecticut	37315982.	11.0%
Delaware	8846722.	10.1%
D. C.	13472135.	12.7%
Florida	86093338.	17.4%
Georgia	61870417.	12.9%
Hawaii	13207852.	11.5%
Idaho	12390021.	16.4%
Illinois	152265061.	11.1%
Indiana	63618166.	11.8%
Iowa	42295784.	12.0%
Kansas	28903562.	10.2%
Kentucky	48911022.	12.5%
Louisiana	68690178.	12.1%
Maine	17649139.	13.7%
Maryland	58837208.	9.9%
Massachusetts	94687297.	14.7%
Michigan	126718539.	12.9%
Minnesota	58257149.	9.5%
Mississippi	49566175.	12.1%
Missouri	55501304.	13.0%
Montana	11650543.	13.7%
Nebraska	21909661.	12.7%
Nevada	6605863.	14.7%
New Hampshire	9519309.	14.8%
New Jersey	93334070.	12.0%
New Mexico	18956246.	15.0%
New York	331956586.	12.7%
North Carolina	76573943.	12.6%
North Dakota	12455068.	12.3%
Ohio	117874266.	10.2%
Oklahoma	33294990.	13.0%
Oregon	29219994.	10.2%
Pennsylvania	155683144.	12.0%
Rhode Island	13464544.	11.5%
South Carolina	40723522.	12.9%
South Dakota	13495707.	11.9%
Tennessee	55721174.	12.7%
Texas	141608202.	14.2%
Utah	17846469.	16.7%
Vermont	8387910.	14.1%
Virginia	58594440.	10.2%
Washington	43197425.	10.8%
West Virginia	29121714.	12.1%
Wisconsin	74847512.	12.3%
Wyoming	5680062.	14.0%

Source: Office of Revenue Sharing, Department of the Treasury

*One-half to be paid in April; one-half to be paid in July.

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

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FOR IMMEDIATE RELEASE MARCH 29, 1973

TREASURY REQUESTS SECURITIES ASSOCIATION, EXCHANGES TO CONTINUE INTEREST EQUALIZATION TAX PROCEDURES

The Department of the Treasury today requested the National Association of Securities Dealers, Inc., and national securities exchanges to request members and member firms to continue existing procedures on securities transactions which are subject to the Interest Equalization Tax. The tax is due to expire at midnight March 31, 1973.

Proposed legislation extending the Interest Equalization Tax to June 30, 1974, was passed by the House of Representatives on February 27, 1973, and was passed by the Senate on March 27, 1973, with a number of technical amendments. A House-Senate conference committee on March 28, 1973 approved a compromise bill, which was then approved by the Senate on March 29, 1973. However, it is not expected that the House of Representatives will approve the conference bill until after the tax expires at midnight on March 31, 1973.

The Department of the Treasury announced that, if the legislative process to extend the tax is not completed on or before April 1, 1973, it is intended that the pending legislation shall apply as of midnight March 31, 1973, in order to assure the uninterrupted applicability of the tax beyond March 31, 1973 at the rates and under the procedures in effect on the latter date.

Consultations with representatives of the securities industry indicate that it is feasible and desirable to continue beyond March 31, 1973, procedures previously adopted for dealing in stocks of foreign issuers and debt obligations of foreign obligors, especially those applicable to the identification of foreign securities owned by U.S. persons which may be traded free of tax among U.S. persons. Such continuation will assure the maintenance of orderly markets in these securities pending action on the proposed legislation.

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The Treasury has been advised by the National Association of Securities Dealers that the rules adopted by the Association to cover a similar situation in 1969, at the time of a similar impending expiration of the Interest Equalization Tax, remain in effect and will be applicable to acquisitions on or after April 1, 1973. The Treasury has requested that the National Association of Securities Dealers so advise its members and that the national securities exchanges adopt and publish any necessary rules requiring their members and member firms to continue beyond March 31, 1973, the procedures existing on that date for transactions and securities then subject to the Interest Equalization Tax.

Technical details announced today by the Treasury are attached and are being submitted to the Federal Register for publication.

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Attachments

March 29, 1973

Treasury Department Announcement

INTEREST EQUALIZATION TAX

CONTINUATION OF CURRENT PROCEDURES AFTER MARCH 31, 1973, AND RETROACTIVE EFFECT

In the event that the interest equalization tax is not extended on or before April 1, 1973, it is intended that the pending legislation will be effective with respect to acquisitions made after March 31, 1973, so as to assure uninterrupted applicability of the interest equalization tax. The Treasury Department also intends that the rates, rules and procedures in effect on March 31, 1973 shall continue in effect during the period from April 1, 1973 and extending until the legislation is enacted, in all respects as if the tax had been extended prior to April 1, 1973.

The status of participating firms will continue as such unless terminated under current procedures. Banks and trust companies which are participating custodians will continue as such until further notice, as indicated below.

Under current law, the interest equalization tax is not applicable to any acquisition of stock of a foreign issuer or debt obligation of a foreign obligor made after

March 31, 1973. H.R. 3577, as agreed to by a House-Senate conference committee on March 28, 1973, would extend the tax to June 30, 1974.

Some of the rules and procedures in effect on March 31, 1973, and which will continue in effect, are set forth below along with the special procedures for participating custodians.

1. Participating Firms and Participating Custodians.

Those broker-dealers having status as participating firms on March 31, 1973, will retain their status as such with respect to acquisitions after such date, unless their status is terminated and the termination announced under existing procedures. If any broker-dealer does not want to continue its status as a participating firm, it must follow such termination procedures.

Those banks (or trust companies) having status as participating custodians on March 31, 1973 will retain their status as such during the period following March 31, 1973. It is assumed that during the period before the legislation is passed by the House of Representatives and signed by the President, all participating custodians shall continue to comply with the statutory requirements in effect on March 31, 1973, and with the documentation, record keeping, reporting, and auditing requirements of the Internal Revenue Code in effect on such date. If action for extension is not

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completed during the week of April 1, a further announcement will be made and a date will be set by which all participating custodians must notify the Commissioner of Internal Revenue that they will continue to comply with the applicable requirements.

2. Issuance of Validation Certificates.

Validation Certificates will continue to be issued by the Internal Revenue Service after March 31, 1973. The Internal Revenue Service will follow those procedures currently in force dealing with the issuance of Validation Certificates, and will require such proof of status as a United States person and compliance with the tax (on the assumption that the proposed legislation will be enacted) as is currently required.

3. Payments in Respect of Tax.

During the interim period, the Internal Revenue Service will continue to receive returns and payments in respect of tax (on the assumption that the proposed legislation will be enacted) and make appropriate refunds.

4. Participating Firms Purchasing and Selling Taxable Securities for Own Account.

A participating firm making a sale of taxable securities for its own account must pay the tax on or before the effective date of the sale (generally the settlement date).

In such cases the acquisition is currently reported on Form 3780A which accompanies the payment of tax. This procedure, including payments in respect of the tax, will remain in effect after March 31, 1973.

5. Withholding Procedures.

The withholding procedures currently provided under section 4918(e)(7) and Temporary Regulation § 147.5-2 will continue to apply.

6. Information Returns.

Reporting on information returns currently prescribed in connection with the interest equalization tax will continue in effect except as may be provided in subsequent Treasury Department publications.

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

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FOR IMMEDIATE RELEASE March 30, 1973

NOTE TO CORRESPONDENTS:

The Treasury today announced it has postponed the offering of $2.0 billion of 2-year notes which it previously had announced it expected to offer around the end of March. This postponement reflects the strong Treasury cash position, in part the result of the recent sales of nonmarketable securities to foreign monetary authorities.

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

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FOR IMMEDIATE RELEASE APRIL 2, 1973

ROBERT T. COLE RESIGNS AS
INTERNATIONAL TAX COUNSEL

Treasury Secretary George P. Shultz has accepted "with great regret," the resignation of Robert T. Cole, International Tax Counsel. Mr. Cole is leaving the Treasury Department to establish a law office in Washington, D.C.

Mr. Cole has been with the Treasury Department since April 1967, when he accepted appointment as Deputy Special Assistant for International Tax Affairs. In September 1969, Mr. Cole was promoted to Special Assistant for International Tax Affairs, and in March 1971 to the newly-created position of International Tax Counsel.

Mr. Cole has acted as the Treasury's principal legal advisor in the formulation of policy, legislation, and regulations on international tax matters. He has played a leading role in negotiating and implementing United States tax treaties with other nations. Mr. Cole also was one of the group that developed the Foreign Direct Investment Regulations issued in 1968, and has been the Treasury representative in an inter-agency group dealing with the problems of foreign bank secrecy.

A native of New York City, and a 1953 graduate of the Wharton School of Finance and Commerce at the University of Pennsylvania, Mr. Cole holds an LL.B degree from Harvard Law School (1956), and also an Academic Post Graduate Diploma in Law from the London School of Economics (1959). Prior to joining Treasury, he was with the New York law firm of Mudge Rose Guthrie & Alexander. Previously, he practiced law in Brussels, Belgium and served in the Judge Advocate General's Department of the Air Force.

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Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE W04-2041

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FOR RELEASE AT 10:00 a.m.

Statement of
GEORGE P. SHULTZ, Chairman
Cost of Living Council

and

JOHN T. DUNLOP, Director
Cost of Living Council

Before the
HOUSE COMMITTEE ON BANKING AND CURRENCY

April 2, 1973
10:00 a. m.

We are pleased to appear before this Committee in support of the extension of the Economic Stabilization Act. 1973 is a crucial year in the continuing transition to a more stable prosperity, and we believe that a flexible program of direct restraints on prices and wages can play an important supporting role.

As you know, last week the President announced the imposition of ceiling prices on red meats. We will first describe this action and its background, and then move on to a review of the broader aspects of the Economic Stabilization Program.

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Food Prices

The most serious aspect of the present concern over inflation is the sharp run-up in food prices over the past few months. Retail food prices increased by 5 percent in 1972--somewhat more rapidly than other consumer prices--and then moved sharply higher in early 1973--4.7 percent in January and February alone. This spurt was led by prices of red meats, which went up 10.4 percent in the first two months of 1973. This rise in food prices generally and in red meat specifically is the result of a sharp increase in demand during 1972 and early 1973 while, at the same time, supplies did not increase.

The ceilings imposed last week apply to beef, pork and lamb sold at the retail, wholesale and packer levels. The ceilings do not apply to animals on the hoof; we feel it is vitally important not to impede the buildup of livestock herds now underway. This buildup will bring increased meat supplies, and lower prices, later in 1973 and in 1974. In the meantime, the ceilings, which are of indefinite duration (though by no means permanent), are intended to prevent any further rise in red meat prices from taking place, while increased supplies come into better balance with demand.

It is important to understand that the recent spurt in food prices is not a permanent thing--that food prices will level off during the second half of 1973. In particular, this sharp but short-lived rise in food prices should not be built into decisions on prices and wages in other sectors of the economy.

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The rapid rise in food prices will be short-lived not primarily because of the ceilings, but because the recent shift toward a tighter balance of supply and demand for meat and other foods can and will be reversed. In response to market forces, farmers are increasing their plantings of crops and building up their livestock herds. In addition, the agricultural policies of the Federal Government have been adjusted sharply and comprehensively to ensure that this change takes place quickly.

- Set-aside acreage of crop land has been reduced by about 40 million acres to permit greater production of grains.
- Government-owned stocks of grains have been sold and loans on farm-stored crops are being terminated.
- Restrictions on imports of meat have been suspended.
- Additional imports of nonfat dry milk were permitted, and the Tariff Commission is investigating the possibility of raising cheese import quotas by 50 percent.

These and other actions will ensure that a greatly enlarged supply of food products will become available during the second half of this year. When these additional supplies reach the market, farm prices should move down quickly and we should have a flattening out of grocery store prices.

Prices in Other Sectors

Outside of food, prices have increased moderately in most industries. Nonfood consumer prices have increased at an annual rate of 2.9 percent since the stabilization program began, and 3.2 percent over the past six months. Industrial wholesale prices have increased at an annual rate of 3.3 percent since August 1971. In the past six months, the rise in industrial wholesale prices has accelerated to a 4.0 percent rate, because of sharp increases for lumber, hides and fuels. These industries, along with food, have been troublesome all along and have accounted for a disproportionate share of the overall price increase. Together, these four sectors represent less than 40 percent of the weight of the total index, but during 1972 they accounted for more than three-fourths of the overall increase in wholesale prices.

There are two striking features about these sectors of the economy. First, they are highly competitive industries that are not dominated by a small handful of large firms. Second, the main problem that led to rising prices in each of these industries was an inadequacy of supply, or pressures on supply of strong demand in international markets. Phase II of the Economic Stabilization Program, we should note, was not designed for situations in which the available productive capacity was insufficient to meet increases in demand--which are generally situations in which price adjustments are necessary to allocate limited supplies and to call forth increases in production.

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These and other actions will ensure that a greatly enlarged supply of food products will become available during the second half of this year. When these additional supplies reach the market, farm prices should move down quickly and we should have a flattening out of grocery store prices.

Prices in Other Sectors

Outside of food, prices have increased moderately in most industries. Nonfood consumer prices have increased at an annual rate of 2.9 percent since the stabilization program began, and 3.2 percent over the past six months. Industrial wholesale prices have increased at an annual rate of 3.3 percent since August 1971. In the past six months, the rise in industrial wholesale prices has accelerated to a 4.0 percent rate, because of sharp increases for lumber, hides and fuels. These industries, along with food, have been troublesome all along and have accounted for a disproportionate share of the overall price increase. Together, these four sectors represent less than 40 percent of the weight of the total index, but during 1972 they accounted for more than three-fourths of the overall increase in wholesale prices.

There are two striking features about these sectors of the economy. First, they are highly competitive industries that are not dominated by a small handful of large firms. Second, the main problem that led to rising prices in each of these industries was an inadequacy of supply, or pressures on supply of strong demand in international markets. Phase II of the Economic Stabilization Program, we should note, was not designed for situations in which the available productive capacity was insufficient to meet increases in demand--which are generally situations in which price adjustments are necessary to allocate limited supplies and to call forth increases in production.

The Need for Flexibility

These problem areas demonstrate the need for a flexible controls program. Each situation has its own special characteristics. For example, foreign sources account for a large share of our petroleum supplies, which means that world market conditions must be taken into account. In lumber, government-owned lands provide a major part of the raw material, and environmental considerations are important. Special circumstances must be taken into account in dealing with different food items as has already been noted. In all these areas, combining policies to increase supply with appropriate price control policies, as we have done, is the only way to restrain prices without creating shortages.

The need to take account of supply shortages and other special considerations has become more important with the continuing vigorous growth in the economy. As market conditions change, different control strategies must be developed if controls are to perform their role most effectively.

Current market conditions are very different from those that prevailed in the fall of 1971. The unemployment rate was then about 6 percent, compared to about 5 percent now. There was a great deal of slack in the economy, with considerable unused industrial capacity. This slack led to prices that were below ceiling levels in many sectors during most of the program. Also, demand in markets for internationally traded commodities was not pushing up prices as much at that t...

Since then, strong growth in output has brought many sectors close to full capacity. As market conditions changed, difficulties began to emerge under the procedures and regulations of Phase II. Thus, in some industries such as lumber and fertilizer, application of the general regulations would not permit price increases necessary to induce increased supplies. Higher world prices for fertilizer led to a sharp increase in exports, despite the risk of a shortage of fertilizer here at home. In other instances, firms that were efficient and aggressive in reducing costs were constrained by base period profit margins from working toward still greater efficiency.

On the wage side, the procedures for review and formal approval required for pay adjustments were beginning to erode seriously the collective bargaining process. The general pay standard too often became a target that labor organizations had to exceed in negotiations to demonstrate their effectiveness. Too often negotiations started at that figure and did not consider sufficiently competitive conditions, productivity and special problems of the particular sector. Too often negotiators were avoiding hard choices and their responsibilities in collective bargaining by leaving decisions to the stabilization authorities.

Thus, changing conditions on both the price and pay sides require different stabilization strategies. When supplies are inadequate, it is especially important to avoid using controls in a way that would discourage increased supplies--and thus exacerbate the problem. Instead, controls should be used to supplement policy actions on the supply side. This is the approach we have followed with petroleum, lumber, and food.

Consequently, there is a need for a more flexible tailoring of stabilization rules to individual industry and product situations than was possible under the Phase II program. Other government policies can and must also be brought to bear to reduce inflationary pressures. This flexibility in applying controls is available under Phase III. It permits exemption of sectors from controls as soon as it is safe to do so, just as it permits reimposition of mandatory controls in sectors with persistent inflationary tendencies that direct controls can help to constrain.

The program was also designed for a period of transition toward less reliance on controls. The flexibility of the program will help to avoid the problem that incomes policies have typically confronted both in the United States and abroad--the tendency for a significant jump in wages and prices when controls are eliminated all at one time. At the end of previous stabilization efforts, prices and wages have often risen to levels that would likely have been reached had there been no controls. Phase III was designed to avoid such an abrupt upsurge in wages and prices.

A flexible approach will also help to achieve a reasonable pattern of wage settlements during 1973. The industrial relations climate is clearly better than it has been in many years. The top leaders of labor and management on our advisory committee are working together to seek new ways to find industrial relations peace and, as they have reported to us, to "use their good offices to create a climate favorable to the settlement of collective bargaining negotiations in 1973 within the framework of stabilization policies."

Among the most important collective bargaining agreements for the year in terms of their potential for widespread impact on the economy, are railroads and over-the-road trucking. At this very early date in the year, more than three months ahead of schedule, very substantial progress has been made toward achieving a resolution. The settlement does not appear on its face to be unreasonably inconsistent with the stabilization program; it will be reviewed fully by the Cost of Living Council when the agreements have been ratified. The railroad settlement is truly an outstanding industrial relations achievement, particularly in an industry that has been plagued by strife in recent years and that has too often required special legislative intervention. While negotiations have not yet begun in the over-the-road trucking industry, the Chicago situation that has upset the last two negotiations appears to have been approached in a constructive way.

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The agreement in the steel industry announced last week also represents a very innovative and constructive approach, both with respect to the terms of the settlement and its timing. Elimination of the potential for a strike next year will avoid a costly inventory buildup followed by slack work. It will also help to reduce the inroads of imported steel into the domestic market and assure labor peace in the industry for the next four years.

The Cost of Living Council has monitored carefully the various collective bargaining agreements that have been settled since January 11, 1973. Several settlements are under particular scrutiny and should the review show that they are unreasonably inconsistent with the standards provided in the regulations, the Council will require that the agreements be modified.

While labor markets generally are likely to tighten somewhat during the year as the level of unemployment declines further, there is little evidence yet of critical shortages of workers such as existed in the 1966-68 period. There is also no evidence that the level of wage settlements in collective bargaining has moved up to a new level.

Other Program Areas

We have been concerned with the rent increases that have taken place in some metropolitan areas in the past two months. The Cost of Living Council has assembled information on these increases, particularly in areas where there were indications of tight rental markets. All of the available evidence indicates that this does not reflect a problem of national proportions. The large increases in rent have been concentrated in a limited number of local areas, rather than being general throughout the country. Industry representatives have indicated their interest in cooperating to assure voluntary restraint in rents in areas where pressures have occurred. In this way restraint can be achieved without deleterious effects on the housing stock and on new housing construction.

Another area to which special attention has been devoted in recent months is interest rates. The Committee on Interest and Dividends has worked arduously throughout the stabilization program to achieve restraint in this area--and it has been effective. Chairman Burns reported to you last Friday on the Committee's efforts. We wish to emphasize again our concern that mandatory constraints on interest rates, even if limited to institutional rates, would distort the flow of credit through the financial system, disrupt the growth of business activity, and intensify inflationary pressures. It would also have disruptive consequences for the international monetary system.

The National Commission on Productivity has made a promising contribution to the stabilization program in 1972 by drawing on its two main strengths: bringing labor, management, and government together at the same table and providing a forum for consideration of productivity issues that cut across agency and jurisdictional lines. In the food sector, for example, labor and management representatives from farming, food processing, and food distribution were asked to identify problem areas contributing to the high cost of food. A number of problems were identified and specific actions were suggested that would help alleviate cost pressures in that sector.

In the work to be done to improve productivity growth, real progress will be made only through the constructive efforts of labor and management working together. The Productivity Commission provides a highly constructive mechanism for such efforts, and provision should be made in the legislation for continuing these efforts to facilitate more rapid growth in the Nation's productivity.

We are continuing the work of assuring compliance with the stabilization program. In addition to processing the violations that occurred in Phase II, procedures have been developed in conjunction with the Internal Revenue Service for monitoring and fact-finding activities to determine compliance with Phase III standards. The Internal Revenue Service has conducted a survey of executive compensation for the 1972 control year. A survey to evaluate the management-control systems installed by large firms to maintain compliance with the price standard is underway. And procedures for monitoring individual pay and price situations have been established. In the weeks ahead, special attention will be given to ensuring close compliance with the ceilings on red meat prices.

Summing Up

The main elements in our anti-inflation strategy are farm policies that will assure a fully adequate supply of red meat and other foodstuffs, a comprehensive but flexible system of price and wage controls and, most important, the necessary restraint in the budget and in monetary policy. The present inflation has its deep roots in the extraordinary rise in Federal spending from 1965 to 1968, which overstimulated an already fully employed economy. We must prevent that history from being repeated. We commend the Joint Economic Committee for its support of a $269 billion ceiling on Federal expenditures in fiscal 1974.

We feel that the Economic Stabilization Program can play an important supporting role in our anti-inflation strategy, just as it contributed to the slow-down of inflation during 1972. But the stabilization approach cannot remain fixed; it must be adapted to reflect the changes that take place in economic conditions.

We believe that the Phase III stabilization program has been designed to perform most effectively the continuing role that controls can play. Consequently, we have requested a simple extension of the Economic Stabilization Act for one year. This additional year of stabilization authority will permit the application of flexible policies to changing circumstances in this year of transition to less reliance on controls in managing economic policy.

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE W04-2041
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FOR IMMEDIATE RELEASE April 2, 1973

TENTATIVE NEGATIVE DETERMINATION ON MICROWAVE OVENS FROM JAPAN UNDER THE ANTIDUMPING ACT

Assistant Secretary of the Treasury Edward L. Morgan announced today a tentative determination that microwave ovens from Japan are not being, nor are likely to be, sold at less than fair value within the meaning of the Antidumping Act of 1921, as amended. These ovens are electronically operated and use radiant energy generated by a magnetron tube for the rapid cooking of food items.

Notice of this determination will be published in the Federal Register of Tuesday, April 3, 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 from Japan has not been withheld.

During calendar year 1972 imports of microwave ovens from Japan were valued at approximately $20 million.

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FOR IMMEDIATE RELEASE   MARCH 29, 1973

OFFICE OF THE WHITE HOUSE PRESS SECRETARY

THE WHITE HOUSE

PRESS CONFERENCE
OF
SECRETARY OF THE TREASURY GEORGE SHULTZ
SECRETARY OF AGRICULTURE EARL BUTZ
AND JOHN T. DUNLOP, DIRECTOR, COST OF LIVING COUNCIL
THE BRIEFING ROOM

8:16 P.M. EST

MR. ZIEGLER: I know you have not had a chance to read all of the material we have given you, but I thought we would proceed anyway, because the material that you have is embargoed until 9:00 p.m. and Secretary Shultz will outline the basic action indicated in the President's address tonight relating to retail prices of beef, pork and lamb.

Also here tonight is Secretary Butz and Mr. Dunlop. So we will proceed with a discussion of that section of the speech and then you will have an opportunity to look at the other subjects contained in the material we have given you.

SECRETARY SHULTZ: The President is announcing tonight the imposition of a ceiling on the prices of beef, pork and lamb. This ceiling will exist at the retail level, at the wholesale level and the packer level. It will not apply to animals on the hoof.

The duration of the ceiling is indefinite; that is, it will last until the problem is solved. As you know, the President has taken a long series of steps designed to increase the supply of food products. Some of the actions that he has taken are beginning to show their effects, but most will have effects that will become apparent later in the year.

Our biggest problem in the food area has been in the area of meat prices, and the President expects, through this action, that we will, so to speak, cut off a potential bulge and potential further increases in price, and that as the long-term actions that he has put into effect have their impact on prices, we will see these prices coming down.

So at this point we look for combined action, with the President's action on imposing a ceiling or a freeze, with the housewives rebellion at the high food prices and the farmers' increase in supply, to come together and stop the rise in prices and, as these forces take effect, bring these prices down.

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The Internal Revenue Service will put forward its network of enforcement personnel all around the country to see that there is compliance with this order. However, I would say that the mood of the country, no matter how you read it, is that this problem must be solved and we expect that there will be cooperation all around to do the job.

Now, as an additional step also being announced tonight, the President is sending up an article that was scheduled to be in the trade bill, probably will be in the trade bill also, but we hope for immediate action from the Congress on it, and that is a provision that allows the President to reduce or suspend tariffs and quotas on commodities where prices have been rising at a rapid rate and demand cannot be satisfied at reasonable prices.

So, he will seek this authority, and just to give some examples of the extent of the tariffs that are now on, on beef the tariff is about 3-1/2 percent, on lamb about 2-1/2 percent; to take a different type of item entirely, on plywood it is about 12-1/2 percent. So those are some examples of items that would be affected if the President had this authority and suspended the tariffs.

So, in summary, I would say this is an action to stop the rise in meat prices, food prices -- meat prices as the particular focal point here -- and we expect that with this action and with the actions of the housewife and the farmer together, as the long-term measures take effect, we will not only have stopped the rise in these prices, but we will see some decline.

Q Mr. Secretary, do your remarks about the housewife's cooperation and whatnot mean that the Administration now is supporting the boycott that is scheduled to take place?

SECRETARY SHULTZ: I don't think it is so much the boycott as it is the clear fact that the housewives of America are darn smart people and they react to high prices by adjusting their shopping patterns. They are doing that and I think it is pretty clear it is having an impact.

Q Won't this action tend to freeze prices at their present high levels?

SECRETARY SHULTZ: No. We have deliberately chosen the word "ceiling" rather than "freeze" in order just to deal with that problem, at least at the rhetorical level. We are talking here about putting in a ceiling. (Laughter) And that is not a point freeze, it is something that represents a top, and we expect and hope that there will be prices below that level.

Q Can you give us a time estimate as to when you think prices will begin to come down in food?

SECRETARY SHULTZ: We have said, as we have looked at this, as we get into the second half of the year we expect these prices, broadly speaking, to be declining as a result of all the supply actions that have been taken.

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Now just when that will happen, I don't know, but we will keep this ceiling on until we are able to see that the job is being done. There may be some things that happen sooner and there have been some very significant price breaks, just in the recent week, and I think they result from the fact that there is a good supply there and there has been resistance at the buyer level, and I think that there is also a tendency, once suppliers see that the price is not going to go up any further, or might go down, that if they were holding supply at all they tend to bring it onto the market.

Q Mr. Secretary, President Nixon said the other day that price controls led to shortage, black market, and eventually rationing. What about that?

SECRETARY SHULTZ: The point to be clear about is that we must be careful not to try to control prices at the raw agricultural level, at the level of the farmer, at the level of the cattle on the hoof, the pig while it still squeals, and there we want to let the forces of the market place play, and let the price encourage the supply, and we stick with that principle, just as the President has consistently said.

Q If the prices go up at the livestock, won't the seller be in a terrible squeeze? How can he keep the price at a ceiling when the price is going up?

SECRETARY SHULTZ: I think the sellers, with their prices at a ceiling, obviously will not be able to buy at prices that are going to have them lose a lot of money at those levels and in effect that restriction on demand, buttressing the restriction that the housewife herself is placing on it, tends to be passed back down the distribution line.

We are at levels where we have a tremendous volume of food coming on the market, and it is this tremendous surge of demand that has resulted in this problem, and if it cools off just a little bit, we will probably be all right.

Q Why didn't you do it two months ago, Mr. Secretary?

SECRETARY SHULTZ: This problem, I think, has become obviously a very severe one and we felt that now is the time to hit it. Perhaps it should have been done two months ago. The prices have gone up.

On the other hand, if it had been done then, we might very well be facing now just the problems that were suggested in the previous question, that the supplies that are being encouraged and brought onto the market would not have been in that posture and we would have been facing some real shortages here.

Q Mr. Secretary, would Secretary Butz care to identify the damn fools who ganged up on him?

MORE

SECRETARY SHULTZ: Peter, that question is so unlike you. (Laughter)

SECRETARY BUTZ: Well, you saw me laughing at the time when I made the comment.

Q Through clenched teeth. (Laughter)

SECRETARY BUTZ: Obviously a facetious remark about some of those who hold a different point of view.

Q Do you support this move now?

SECRETARY BUTZ: Yes, indeed. I think the time is ripe for this and I thoroughly second what Secretary Shultz said about not imposing ceilings on live animals, which, in my opinion, would be counter-productive. Our farmers are increasing their production. The number of cows and heifers held back for breeding purposes on January 1 was up a whopping six percent over a year ago. Up so much, some people in the cattle industry feel they may be overdoing it. Hog farrowing in this six month period is up. They will be coming to market later in the year.

I think to have imposed a ceiling at the farm level would have discouraged that and would have been counter-productive.

Q Secretary Butz, supermarkets complain already that their profits are virtually nil. How are they going to cope if they have to cope with increasingly higher prices for beef on the hoof, as you call it? How are they going to cope?

SECRETARY SHULTZ: I think when buying can only take place at a certain price it is going to ration itself back down through the system and since we are at a very high level, we are at a level that encourages supply. So we don't have, as Secretary Butz pointed out, the problem of prices that might have been very discouraging to farmers.

Q Mr. Secretary, in the absence of these controls, had you expected the prices at the slaughter house would have continued above their present level or were you expecting they would go down?

SECRETARY SHULTZ: We have been expecting right along that somehow this would top out as a result of all the actions that have been taken, but it hasn't happened. The prices have kept going up and so we have felt the thing to do is to take action, and to take firm action and put a ceiling on, and this is in a sense, you might say, putting our mouth where our money is. We have been saying this is going to happen and this downtrend will occur, so we are putting in a ceiling and we expect that the downtrend will come about before long and we will ride it down.

Q Mr. Secretary, the ceiling is the prices in effect today.

SECRETARY SHULTZ: Well, the way you calculate the ceiling is the same way it was done in Phase I, which is the same way it was done in the OPS days. You establish a base period which is basically the month of March and then you array your prices and come down the line of prices until you have 10 percent of the volume and that is your ceiling price, and it goes by a whole set of commodity groups that are essentially the commodities that housewives buy and that has been a fairly standard method.

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Q Do you think this will satisfy Mr. Meany, and has there been prior consultation with Mr. Meany?

SECRETARY SHULTZ: I don't know how Mr. Meany will react to this. I do know that last Friday we had a lengthy discussion in the Labor-Management Advisory Committee which, as you know, is set up as an advisory committee to the Cost of Living Council particularly having to do with wage matters, but we spent a high proportion of the time in that session discussing food price problems, and we certainly had the feeling from that group, both the management side and the labor side, that the situation called for very firm action by the President.

That was their advice, and that was transmitted to the President. But how Mr. Meany will react to this, I am sure we will all find out before long.

Q Do you have a quantitative goal on what will have to happen to prices specifically before the job is done?

SECRETARY SHULTZ: No. We are deliberately leaving this a little up in the air and just saying that this action will be for an indefinite duration, as long as it takes to do the job.

Q How are retailers and shoppers tomorrow supposed to know what the allowable price is?

SECRETARY SHULTZ: The reaiilers, of course, don't know about this, so I don't know what they can actually do tomorrow. That is asking for pretty quick action, but all of the reference prices are in the past. The 30-day period, I believe, ends the 28th, so that whatever prices may have been in today or tomorrow don't affect this. Now it is up to them to figure their ceiling price and post it. The IRS will be around and this is the way it was done in Phase I, and so on.

Q Won't the result, in effect -- this average for the month -- be catching the prices at pretty much their record levels?

SECRETARY SHULTZ: It depends. It is a little hard to tell how this method works out, and it may vary somewhat from product to product. It could be on the low end. It could be on the high end. It depends on the way the distribution of sales went by price.

Q The legislation to remove tariffs and quotas, if necessary, would that also apply to quotas covering textiles?

SECRETARY SHULTZ: These are statutory tariffs and quotas. The textile agreement is a voluntary agreement. But it empowers the President to remove statutory tariffs and quotas where the prices have been rising rapidly and where the demand cannot be satisfied at reasonable prices. So what commodities would qualify from time to time --

Q But not textiles, because they are covered by an agreement; right?

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SECRETARY SHULTZ: They are covered by a voluntary agreement and they are not a wide measure, but this is something we have thought of particularly as we have worked on the meat problem and the lumber problem. And you look at this and say, "My goodness, we have removed all the quotas on meat imports. There are no quotas on lumber imports, but we are charging a 3-1/2 percent tariff on beef, we are charging a 2-1/2 percent tariff on lamb, we are charging a 12-1/2 percent tariff on plywood, so let's get rid of those."

Q Does the present notification of all pay adjustments affecting the employees in the food industry apply to the retail level as well?

SECRETARY SHULTZ: Yes.

John, do you want to respond to that?

Q Does the present notification referring to all employees in the food industry affect retail level as well?

DR. DUNLOP: Oh, yes. The measures provide that all wage applications must be submitted to the Cost of Living Council in advance and that there is no area of self-administration.

In other words, increases which before tonight could have been put into effect on a self-administering basis cannot, in the future, be done so without explicit review of the Cost of Living Council.

SECRETARY SHULTZ: That is the wage counterpart of what exists on the price side.

Q Is this Phase IV or still a part of Phase III?

SECRETARY SHULTZ: This is, you might say, the club in the closet, or something. I don't know.

Q Why has poultry been excluded, not included in the controls?

SECRETARY SHULTZ: Because poultry is an entirely different cycle. It is a very short production cycle, and right now we have a situation where the prices are encouraging supply, and furthermore, the feed -- what do you call that, sourmash or something (Laughter) -- feed is going down and it is a good situation and that situation is going to cure itself the way we said. So that is why.

Q Mr. Secretary, do you believe that overseas suppliers of the American meat market have been holding back supplies and secondly, what makes you think they will continue to send the supplies here when you are limiting the money they can get from this market?

SECRETARY SHULTZ: Well, I believe it was last June the President suspended all quantitative restrictions on imports and most people said there wouldn't be much reaction to that.

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Actually, there was quite a reaction, and I have forgotten the percentages exactly, but there was a significant percentage increase in imports as a result of that.

This year, so far, the imports are running at a significant percentage above last year. Perhaps you know what the percentage is, Earl, offhand. Do you?

SECRETARY BUTZ: The volume of imports is up about 50 percent from before quotas were lifted.

SECRETARY SHULTZ: At any rate, the volume has been expanding. Obviously we are in a competitive price situation with other possible places where this meat could go, but the fact of the matter is right now it is coming here, it is coming here in large quantities and goodness knows, our prices are high.

Now, I think it will help us to take the tariff off. Why have the tariff on when we are trying to import this stuff.

Q Why don't you impose an embargo on meat exports?

SECRETARY SHULTZ: The volume of meat exports is slight. We are a big net importer and we will watch that situation, but we don't think that is a problem at the present time, and you can get yourself all tripped up by trying to put too many controls on too many things.

Q There is some indication that retail beef prices might be about to come down. Do you think the fact that a ceiling is being set will keep them up at a ceiling level?

SECRETARY SHULTZ: No, I don't. I think if anything it will operate the other way. That is, I have the impression that when prices are in a strongly rising trend, what tends to happen is that people hold off in the expectation that prices may go up further.

So, we think one possible productive impact of this is to, in effect, say they have gone as far as they are going to go and people can stop speculating on the possibility of still higher prices.

Now, I think an awful lot depends, of course, on the way people approach this. We think we have a national problem here. It is a problem that everybody cares about, everybody is interested in, and the housewives have been taking an interest in, the amount of cattle in the feed lots has been going up, as it certainly ought to with these high prices and the situation is just basically ripe for putting this ceiling on and expecting that with these forces operating we will be able to get these prices down.

Q One more question, Mr. Secretary. You were talking about supply of these types of meat on the hoof, before the feed lot level --

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SECRETARY SHULTZ: They are still on the hoof when they are in the feed lot and that is the phase of the production.

Q How much of this originates with individual, independent operators and how much of it is a corporate operation or a subsidiary or otherwise; in other words, how much of this is corporate generation of one kind or another?

SECRETARY BUTZ: Are you asking me?

Q Yes.

SECRETARY SHULTZ: He will take that, but let me just call your attention to page four of these facts. You can see the number of markets involved and so on and you have roughly a third of the sales going through the auction market which is one of the reasons why it is so difficult to get at these sales at the on-the-hoof level.

SECRETARY BUTZ: You heard a great deal about the development of the large feed lots in recent years, but the great bulk of those are individually owned by very small groups of farmers. The number of corporate owned feed lots is not large in this country.

THE PRESS: Thank you very much, gentlemen.

END (AT 8:38 P.M. EST)

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EMBARGOED FOR RELEASE
UNTIL 9:00 P.M., EST March 29, 1973

Office of the White House Press Secretary

THE WHITE HOUSE

STATEMENT BY SECRETARY GEORGE P. SHULTZ,
CHAIRMAN, COST OF LIVING COUNCIL

By direction of President Nixon the Cost of Living Council is today implementing a series of new mandatory controls designed to restrain the rising prices of meat.

These anti-inflation actions feature:

-- A ceiling on prices of beef, lamb, and pork effective today, which will remain in force for as long as necessary to do the job. The ceiling affects meat processors, meat wholesalers, and meat retailers. It sets ceiling prices on all levels of transactions for meat items, both on the buyer and seller in each sale.

-- Prenotification to and approval by the Cost of Living Council of all pay adjustments affecting employees in the food industry.

-- A ceiling price posting requirement for all meat retailers, which calls for prominent public display at all meat counters no later than April 9.

-- Establishment of a nationwide enforcement network operated by Economic Stabilization Program officers of the Internal Revenue Service to assure compliance with new ceiling prices.

As an important step to restrain inflation and to aid the American consumer, the President is seeking authority from the Congress to suspend tariffs and quotas on imports of food. This authority would be used when the President determines that supply is inadequate to meet domestic demand at resonable prices. Coupled with the actions that have been taken to increase food supplies, this will further help to moderate food price increases.

The President has also emphasized it is imperative that the Economic Stabilization Program and the Department of Agriculture continue to monitor and encourage food production at the farm level, and assure that steps already taken will result in increased protein supplies.

The Cost of Living Council Committee on Food, after taking a hard look at all aspects of the food situation, issued a report on the problem on March 20. The report pointed out that a shortage of protein food supplies in the United States, and abroad, had pushed the prices of food up to record high levels. It also spelled out a number of steps taken by the government to restrain food price increases by moving to expand food supplies, reducing impediments to imports and maintaining mandatory Phase III controls on the food industry. The report predicted that the effect of these supply actions will moderate food price increases in the second half of 1973. We firmly believe they will.

However, the report also made clear that continued escalation of food prices posed a serious threat to our stabilization program goal of reducing the rate of inflation to 2.5 percent by the end of this year.

Here are some of the hard facts. During Phase II, food prices at the grocery store increased by 5.2 percent and red meat, beef, and pork, went up by 11.8 percent. Food at retail, excluding meat, increased at a much more moderate rate of 2.9 percent. This was well within the Phase II goal of the stabilization program. But the core of the present problem is the rise in the price of red meat, which has soared 10 to 15 percent at wholesale in the past three months.

Waiting until the end of 1973 for food prices to level off is not good enough. Rising prices are threatening to erode the gains recorded by wage earners in Phase II when real spendable earnings increased substantially.

To those groups of Americans affected by this decision, I would say this. The housewife, who wields the most powerful anti-inflation weapon through her buying decisions, can bring about stabilization by refusing to pay high meat prices. The housewife can help bring about an end to rising meat prices by resisting high prices and by shopping wisely.

To the American farmer, who has an unmatched ability to produce more food at less cost than any nation in the world, we look for every effort that will encourage bountiful crops and animal production. We encourage farmers to continue to expand their production of crops and marketings of beef and pork during the ceiling period to insure that shortages do not develop.

To all consumers, we ask for cooperation. A united effort is needed now: prudent food buying decisions, an understanding that we face a temporary supply problem and the confidence that we will defeat food inflation and attain the goals of the Economic Stabilization Program in 1973.

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FOR IMMEDIATE RELEASE MARCH 29, 1973

OFFICE OF THE WHITE HOUSE PRESS SECRETARY

THE WHITE HOUSE

ADDRESS BY THE PRESIDENT
ON LIVE TELEVISION AND RADIO

THE OVAL OFFICE

9:01 P.M. EST

Good evening.

Four years and two months ago, when I first came into this office as President, by far the most difficult problem confronting the Nation was the seemingly endless war in Vietnam. 550,000 Americans were in Vietnam. As many as 300 a week were being killed in action. Hundreds were held as prisoners of war in North Vietnam. No progress was being made at the peace negotiations.

I immediately initiated a program to end the war and win an honorable peace.

Eleven times over the past four years I have reported to the Nation from this room on the progress we have made toward that goal. Tonight, the day we have all worked and prayed for has finally come.

For the first time in 12 years, no American military forces are in Vietnam. All of our American POWs are on their way home. The 17 million people of South Vietnam have the right to choose their own government without outside interference, and because of our program of Vietnamization, they have the strength to defend that right. We have prevented the imposition of a Communist government by force on South Vietnam.

There are still some problem areas. The provisions of the agreement requiring an accounting for all missing in action in Indochina, the provisions with regard to Laos and Cambodia, the provisions prohibiting infiltration from North Vietnam into South Vietamm have not been complied with. We have and will continue to comply with the agreement. We shall insist that North Vietnam comply with the agreement, and the leaders of North Vietnam should have no doubt as to the consequences if they fail to comply with the agreement.

But despite these difficulties, we can be proud tonight of the fact that we have achieved our goal of obtaining an agreement which provides peace with honor in Vietnam.

On this day, let us honor those who made this achievement possible: those who sacrificed their lives; those who were disabled; those who made every one of us proud to be an American as they returned from years of Communist imprisonment, and every one of the 2-1/2 million Americans who served honorably in our Nation's longest war. Never have men served with greater devotion abroad with less apparent support at home.

Let us provide these men with the veterans' benefits and the job opportunities they have earned. Let us honor them with the respect they deserve. And I say again tonight, let us not dishonor those who served their country by granting amnesty to those who deserted America.

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We have been through some difficult times together. I recall the time in November, 1969, when hundreds of thousands of protesters marched on the White House; the time in April, 1970, when I found it necessary to order attacks on Communist bases in Cambodia; the time in May, 1972, when I ordered the mining of Haiphong and air strikes on military targets in North Vietnam in order to stop a massive Communist invasion of South Vietnam. And, then perhaps the hardest decision I have made as President, on December 18, 1972, when our hopes for peace were so high and when the North Vietnamese stone-walled us at the conference table, I found it necessary to order more air strikes on military targets in North Vietnam to break the deadlock.

On each of these occasions the voices of opposition we heard in Washington were so loud they at times seemed to be the majority. But across America, the overwhelming majority stood firm against those who advocated peace at any price -- even if the price would have been defeat and humiliation for the United States.

Because you stood firm for doing what was right, Colonel McKnight was able to say for his fellow POWs when he returned home, "Thank you for bringing us home on our feet instead of on our knees."

Let us turn now to some of our problems at home. Tonight I ask your support in another battle. We can be thankful that this is not a battle in war abroad, but a battle we must win if we are to build a new prosperity without war and without inflation at home.

What I refer to is the battle of the budget. Not just the battle over the Federal budget, but, even more important, the battle of your budget -- the family budget of every home in America.

One of the most terrible costs of war is inflation. The cost of living has skyrocketed during and after every war we have been engaged in. We recognized this danger four years ago and have taken strong action to deal with it. As a result of our policies we have cut the rate of inflation in half since it reached a peak in 1969 and 1970. Today our rate of inflation is the lowest of any major industrial nation.

But these positive statistics are small comfort to a family trying to make both ends meet. And they are no comfort at all to the housewife who sees meat prices soaring every time she goes to the market. The major weak spot in our fight against inflation is in the area of meat prices. I have taken action to increase imports from abroad and production at home. This will increase the supply of meat and will help bring prices down later this year.

But what we need is action that will stop the rise in meat prices now. That is why I have today ordered the Cost of Living Council to impose a ceiling on prices of beef, pork and lamb. The ceiling will remain in effect as long as is necessary to do the job. Meat prices must not go higher. With the help of the housewife and the farmer, they can and should go down.

This ceiling will help in our battle against inflation. But it is not a permanent solution. We must act on all fronts and here is where the Federal budget comes in.

I have submitted to Congress for the next fiscal year the largest budget in our history -- $268 billion.

The amount I have requested in this budget for domestic programs in such fields as health, housing, education, and aid to the elderly, the handicapped and the poor, is twice as big as the amount in my first budget four years ago. However, some members of Congress believe the budget in these areas should be even higher.

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Now, if I were to approve the increases in my budget that have been proposed in the Congress, it would mean a 15 percent increase in your taxes, or an increase in prices for every American. And, that is why I shall veto the bills which would break the Federal budget which I have submitted. If I do not veto these bills, increased prices or taxes would break the family budget of millions of Americans. Including possibly, your own.

This is not a battle between Congress and the President. It is your battle. It is your money, your prices, your taxes I am trying to save.

Twenty-five years ago, as a freshman Congressman, I first came into this office. I met Harry Truman, who was then President of the United States. I remember he had a sign on the desk. It read, "The buck stops here." Now that meant, of course, that a President can't pass the buck to anyone else when a tough decision has to be made. It also means that your buck stops here. If I do not act to stop the spending increases which Congress sends to this desk, you will have to pay the bill.

Now I admit there is an honest difference of opinion on the matter of the Federal budget. If you are willing to pay the higher taxes or prices that will result if we increase Federal spending over my budget, as some in Congress have proposed, you should ask your Senators and your Congressmen to override my vetoes, but if you want to stop the rise in taxes, and prices, I have a suggestion to make. I remember when I was a Congressman and a Senator, I always seemed to hear from those who wanted government to spend more, I seldom heard from the people who have to pay the bill -- the taxpayer. And if your Congressman or Senator has the courage to vote against more government spending, so that you won't have to pay higher prices or taxes -- let him know that you support him.

Winning the battle to hold down the Federal budget is essential if we are to achieve our goal of a new prosperity -- prosperity without war and without inflation. I ask you tonight for your support in helping to win this vitally important battle.

Let me turn, finally, tonight to another great challenge we face.

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As we end America's longest war, let us resolve that we shall not lose the peace. During the past year we have made great progress toward our goal of a generation of peace for America and the world. The war in Vietnam has been ended. After 20 years of hostility and confrontation we have opened a constructive new relationship with the People's Republic of China where one-fourth of all the people in the world live. We negotiated last year with the Soviet Union a number of important agreements, including an agreement which takes a major step in limiting nuclear arms.

Now there are some who say that in view of all this progress toward peace, why not cut our defense budget?

Well, let's look at the facts. Our defense budget today takes the lowest percentage of our Gross National Product that it has in 20 years. There is nothing I would like better than to be able to reduce it further. But we must never forget that we would not have made the progress toward lasting peace that we have made in this past year unless we had had the military strength that commanded respect.

This year we have begun new negotiations with the Soviet Union for further limitations on nuclear arms. And we shall be participating later in the year in negotiations for mutual reduction of forces in Europe.

If prior to these negotiations we in the United States unilaterally reduce our defense budget, or reduce our forces in Europe, any chance for successful negotiations for mutual reduction of forces or limitation of arms will be destroyed.

There is one unbreakable rule of international diplomacy. You can't get something in a negotiation unless you have something to give. If we cut our defenses before negotiations begin, any incentive for other nations to cut theirs will go right out the window.

If the United States reduces its defenses and others do not, it will increase the danger of war. It is only a mutual reduction of forces which will reduce the danger of war. And that is why we must maintain our strength until we get agreements under which other nations will join us in reducing the burden of armaments.

What is at stake is whether the United States shall become the second strongest nation in the world. If that day ever comes, the chance for building a new structure of peace in the world would be irreparably damaged and free nations everywhere would be living in mortal danger.

A strong United States is not a threat to peace. It is the free world's indispensable guardian of peace and freedom.

MORE

I ask for your support tonight, for keeping the strength, the strength which enabled us to make such great progress toward world peace in the past year and which is indispensable as we continue our bold new initiatives for peace in the years ahead.

As we consider some of our problems tonight, let us never forget how fortunate we are to live in America at this time in our history. We have ended the longest and most difficult war in our history in a way that maintains the trust of our allies and the respect of our adversaries. We are the strongest and most prosperous nation in the world. Because of our strength, America has the magnificent opportunity to play the leading role of bringing down the walls of hostility which divide the people of the world; in reducing the burden of armaments in the world; of building a structure of lasting peace in the world. And because of our wealth, we have the means to move forward at home on exciting new programs, programs for progress which will provide better environment, education, housing and health care for all Americans and which will enable us to be more generous to the poor, the elderly, the disabled and the disadvantaged than any nation in the history of the world.

These are goals worthy of a great people. Let us, therefore, put aside those honest differences about war which have divided us and dedicate ourselves to meet the great challenges of peace which can unite us. As we do, let us not overlook a third element, an element more important even than military might or economic power, because it is essential for greatness in a nation.

The pages of history are strewn with the wreckage of nations which fell by the wayside at the height of their strength and wealth because their people became weak, soft and self-indulgent and lost the character and the spirit which had led to their greatness.

As I speak to you tonight, I am confident that will not happen to America. And my confidence has been increased by the fact that a war which cost America so much in lives and money and division at home has, as it ended, provided an opportunity for millions of Americans to see again the character and the spirit which made America a great nation.

A few days ago in this room, I talked to a man who had spent almost eight years in a Communist prison camp in North Vietnam. For over four years he was in solitary confinement. In that four-year period he never saw and never talked to another human being except his Communist captors. He lived on two meals a day, usually just a piece of bread, a bowl of soup. All he was given to read was Communist propaganda. All he could listen to was the Communist propaganda on radio.

I asked him how he was able to survive it and come home, standing tall and proud, saluting the American flag. He paused a long time before he answered. And then he said, "It is difficult for me to answer. I am not very good at words. All I can say is that it was faith, faith in God and faith in my country."

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If men who suffered so much for America can have such faith, let us who have received so much from America renew our faith -- our faith in God, our faith in our country and our faith in ourselves.

If we meet the great challenges of peace that lie ahead with this kind of faith, then one day it will be written, this was America's finest hour.

Thank you and good evening.

END (AT 9:21 P.M. EST.)

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

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FOR IMMEDIATE RELEASE April 2, 1973

EDWARD M. ROOB APPOINTED
SPECIAL ASSISTANT TO THE SECRETARY
FOR DEBT MANAGEMENT

Secretary of the Treasury George P. Shultz today announced the appointment of Edward M. Roob as Special Assistant for Debt Management.

Prior to his appointment, Mr. Roob, 38, was Vice President and Deputy Administrative Head of the Bond Department, First National Bank of Chicago, where he began his career in 1956. He was named Vice President in charge of the Government Bond Department in 1967 and assumed his latest post in 1971.

A native of Chicago, Mr. Roob holds degrees from DePauw University, Greencastle, Indiana, and the University of Chicago, where he received the degree of Master of Business Administration in 1962.

Mr. Roob is married to the former Barbara Leske of Chicago. The Roobs have three children.

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Department of the TREASURY NEWS

SHINGTON, D.C. 20220 TELEPHONE W04-2041

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ATTENTION: FINANCIAL EDITOR

FOR RELEASE 6:30 P.M. April 2, 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 January 4, 1973 , and the other series to be dated April 5, 1973 , which were invited on March 27, 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 July 5, 1973		182-day Treasury bills maturing October 4, 1973	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv. Annual Rate
High	98.367	6.460%	96.585	6.755%
Low	98.341	6.563%	96.548	6.828%
Average	98.349	6.531% 1/	96.555	6.814% 1/

100% of the amount of 91-day bills bid for at the low price was accepted
85% 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	$ 28,700,000	$ 13,700,000	$ 19,310,000	$ 4,010,000
New York	2,943,785,000	1,895,785,000	3,094,645,000	1,505,265,000
Philadelphia	43,240,000	23,240,000	14,045,000	6,045,000
Cleveland	27,675,000	27,675,000	64,275,000	19,275,000
Richmond	27,515,000	13,515,000	34,340,000	8,240,000
Atlanta	20,930,000	20,930,000	21,665,000	16,565,000
Chicago	330,420,000	243,420,000	380,660,000	112,735,000
St. Louis	69,585,000	48,585,000	62,995,000	18,495,000
Minneapolis	27,510,000	17,510,000	25,845,000	4,845,000
Kansas City	30,625,000	20,625,000	28,155,000	16,655,000
Dallas	37,130,000	16,130,000	50,630,000	14,980,000
San Francisco	302,715,000	58,715,000	442,175,000	73,175,000
TOTALS	$3,889,830,000	$2,399,830,000 a/	$4,238,740,000	$1,800,285,000 b/

a/ Includes $228,550,000 noncompetitive tenders accepted at the average price of 98.349
b/ Includes $146,270,000 noncompetitive tenders accepted at the average price of 96.555
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 6.73% for the 91-day bills, and 7.16% for the 182-day bills.

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FOR IMMEDIATE RELEASE April 3, 1973

TREASURY ANNOUNCES ACTIONS ON TWO INVESTIGATIONS UNDER THE ANTIDUMPING ACT

Assistant Secretary of the Treasury Edward L. Morgan announced today actions on two investigations under the Antidumping Act of 1921, as amended.

In the first case there is a withholding of appraisement pending completion of the antidumping investigation, and in the second case there is a tentative negative determination.

Notices of these actions will be published in the Federal Register of April 4, 1973.

In the first case, Assistant Secretary Morgan announced that the Treasury is withholding appraisement on cold rolled stainless steel sheet and strip from France. This steel is used in the manufacture of a variety of items, including wheel covers, tank and truck trailers, and household appliances and utensils. 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 withholding of appraisement. During calendar year 1972, imports of this stainless steel sheet and strip from France totaled approximately $9.4 million.

In the second case, the Treasury issued a tentative determination that surgical rubber gloves are not being, nor are likely to be, sold at less than fair value within the meaning of the Antidumping Act. The investigations revealed 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 calendar year 1972, surgical rubber gloves from Austria imported into the United States were valued at approximately $120,000.

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For Immediate Release April 3, 1973

TREASURY'S CHIEF LIBRARIAN
LILLIAN MCLAURIN RETIRES

Miss Lillian McLaurin, chief of the Library services at Treasury, closed the book on 30 years of government service March 2 and retired to her home in Natchez, Mississippi.

During her nine years at Treasury, Miss McLaurin undertook a vast four-year project of completely renovating and reorganizing the Treasury Library, including its removal from the present Exhibit Hall area to the current aerie on the fifth floor of Main Treasury. Of the books and reference works assembled there, she recalled "moving them umpteen times," and added that she had always "moved them" in each of her previous library posts.

Although few of her Treasury colleagues knew it, the soft-spoken, Southern accented Miss McLaurin had both law and military credits in her background as well as advanced librarian degrees. She earned bachelor of arts and doctor of jurisprudence degrees at Vanderbilt University in Nashville, a bachelor's degree in library science at George Peabody and a LL.M. at George Washington University. She was admitted to the bar in both Tennessee and Mississippi; a member of the Federal Bar Association, she is also active in the American Association of Law Librarians.

Miss McLaurin's military career included four years of active duty in the WAVE; she was commissioned in 1943 as a member of the first WAVE class, and holds the rank of lieutenant-commander in the Navy Reserves.

As chief of Treasury's library she participated as a member of the Federal Library Committee and is a past president of the Law Librarians Society.

Miss McLaurin started her government career with the TVA project in Paris, Tennessee, and then went on to spend 11 years as a civilian librarian with Navy Judge Advocate-General's office, and nine years with the U.S. Tax Court.

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The new chief of the Library, Anne Stewart, has been with Treasury for eight years, serving as Miss McLaurin's deputy. Her previous government service has been with the Federal Reserve, the Army Library at the Pentagon, and the Federal Maritime Commission.

Miss Stewart, who lives in Arlington, Virginia, earned a bachelor of science degree in political science at Duke University, and a master's in library science at the University of Illinois. Her hobbies include needlepoint and the organ.

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FOR IMMEDIATE RELEASE April 3, 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 April 12, 1973, in the amount of $4,204,960,000 as follows:

91-day bills (to maturity date) to be issued April 12, 1973, in the amount of $2,400,000,000, or thereabouts, representing an additional amount of bills dated January 11, 1973, and to mature July 12, 1973 (CUSIP No. 912793 RK4), originally issued in the amount of $1,901,780,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,800,000,000, or thereabouts, to be dated April 12, 1973, and to mature October 11, 1973 (CUSIP No. 912793 RY4).

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, April 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 April 12, 1973, in cash or other immediately available funds or in a like face amount of Treasury bills maturing April 12, 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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THE DEPARTMENT OF THE TREASURY

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REMARKS OF

HONORABLE PAUL A. VOLCKER,

UNDER SECRETARY OF THE TREASURY

FOR MONETARY AFFAIRS

AT

PRINCETON UNIVERSITY

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March 29, 1973

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[This transcript was prepared from a tape recording.]

MR. VOLCKER: Thank you very much, Peter. One finds all sorts of surprises when one returns to town.

I must say I was very pleased by your invitation to come here tonight, not least because of the experience that I had with Frank Graham. He is certainly my fondest memory of a Princeton professor. I wasn't exactly the type that knew all the professors when I was here, and the comment about not doing much at Princeton would have been even more accurate had I not run into Frank Graham in my senior year and he had not taken me almost literally by the hand and going page by page through a thesis until I finally got it out. And I think that was certainly the finest educational experience that I had when I was at Princetone. And I suppose it is a little bit appropriate that I can come back and talk a little bit about international monetary reform that was so close to his heart at that time and throughout his career.

I say, when I think of coming to an academic audience, my imagination roamed a bit as to what a professorial type, if not a professional type, or both, would think hidden in the various meetings that I have been going to fairly constantly in recent months, trying to do something about international reform, and I think it would be very easy for them to conclude that recent proposals for international monetary reform reveal a confusion of purpose and a lack of consistent principles, which are likely to result only in frustration or disaster.

Until we are quite clear as to what we want, we really can't know how to get it. The issues have not been defined with any precision, aims are lacking in congruity, and the experience by which they would be realized are often contradictory.

Two general objectives, freedom and stability, are of preeminent importance and are comprehensive enough to cover all the debate. It might at first blush seem that there are inevitable conflicts, since freedom implies change and adjustment, rather than stability. Yet it is also true there is no value in change that does not promote adjustment and accommodation.

In particular, exchange rates, that, while mobile, are not so much free as deliberately manipulated, constitute an impairment of stability. Now, we all know that there is nothing like a unanimity of opinion in the ideal pattern of international monetary relations. Some find virtue in freely fluctuating rates of exchange; others hold that exchange rates should be fixed.

Most persons with view of any sort on this question stand somewhere in between these extremes. They simply don't want to make any clear-cut choice between the alternatives. They might be happy with either system; where the other dear charm are far away. But as it is, they prefer a little of both, a little freedom and a little stability, and not so much of either as the forthright selection of one or the other would imply.

This conflict of loyalties is always risky and, in the future as in the past, may well lead to schizophrenic collapse. But, on the other hand, there are those who think it is the only prudent course.

Now, those words were written in 1943 by Frank Graham. But I can't think of anything more appropriate to the present state of international monetary reform.

[Laughter]

And it is a little bit chastening when you think that you are dealing with some very unique problems and you are filled with all sorts of reform zeal to read this sort of reminder that nothing seems very new under the sun, the problems aren't so new after all, and the solutions seem about as slippery as ever.

But in approaching the monetary reform problem in the setting of 1973, and particularly after finding these apropos words of Frank Graham, it seemed to me perhaps useful to start out by trying to sort out those things that may be a little different than they were thirty years ago, and also identify some of those problems that may not be so different and that were his preoccupation then and remain a preoccupation today.

The first thing that is different and that colors the whole present situation, I think, and in some ways may lead to a suggestion that the problems are even more difficult than they are, is that we have been, in my judgment, in the throes of a very major adjustment in competitive relationships between the United States, Japan and Europe. And it is adjustment of a kind that doesn't come along every year or two, thank goodness. It is an adjustment that represents a response to a problem that accumulated literally over two decades or more. And it is an important problem. It has had a jarring impact on world financial markets in terms of the exchange rate changes that have been involved, but it does in some sense have a temporary aspect. You don't have to go through this kind of adjustment very frequently. At the moment, I would think that the exchange rate relationships at least seem more reasonable than they have seemed for some time.

So that in a sense is a passing phase, although a very important phase. But interrelated with it -- and I think this is the other new feature, or a second new feature -- is an underlying reality that helped contribute to that adjustment, and that is a very deep change, I think, in the basic economic and political power relationships in the western world since the end of World War II. It is reflected in almost any statistic internationally that one picks up; most dramatically, for instance, in figures of international reserves, where we started out at the end of World War with three-quarters or 80 percent of all the gold in the world, and practically that much of all the reserves, and we have gone from a positive reserve position of overwhelming importance to a negative reserve position of $70 or $80 billion, while other countries have built up very sizable positive positions in international reserves.

I think you see it in some more basic trends, some real economic factors, as well as the purely financial, international financial data. At the end of the war, the average per-capita income, for instance, in the United States was about four times that in Europe, and about ten times that in Japan. Today, European per-capita GNP is at least three-quarters that in the United States; and Japan is coming up on two-thirds. The GNP of Europe is approaching ours in size; Japan is another very large and active power center.

We used to have -- it is hard to remember, but we used to have a $7 billion current account surplus in the early years after World War II. Seven is a magic number here. We now have a $7 billion deficit, and Europe has a $7 billion surplus, and Japan has a $7 billion surplus, too, in round numbers. That is part of that adjustment problem.

We used to account for 50 percent of the world's GNP. Now we account for less than 30 percent. So you see a striking change in these basic indicators of economic power. And this has, I think, very significant and pervasive influence on what

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you can do in the world monetary system in its economic characteristics and in its political characteristics.

The United States I think can no longer -- neither the United States nor the rest of the world can assume that we have the strength and the power to be a kind of passive hub of the system, around which others adjust. That really wasn't the conception of the Bretton Woods system either, but that is the way it acted, and that is the way it developed in practice. It developed in practice as a system which was largely managed by the United States, I think in economic and in political terms. And we had the strength to manage it at one point.

In relative terms -- and I don't want to plead poverty here, the United States is still the strongest and richest country, but in relative terms we no longer stand out as we did in the earlier post-war period, and this creates certain risks and problems of both the technical and political kind. When you don't have a single leader in the world, I think there is a greater risk of disintegration of the world economy.

You have to fact a simple question of who is in charge, and that question could be answered twenty years ago by saying the United States. You still tried to answer it by saying the United States ten years ago. You still probably got that answer three years ago, but by that time it had become pretty much of a fiction, and our institutional relationships now have to reflect the fact that we have at least in the western world three big power centers. And you have to face the fact that sometimes there may be more than one way to reach Nirvana, but when there is disagreement among the principals involved about which way is best, you have the possibility of conflict when the gods disagree, who decides.

A third and not unrelated to this point I think is the rise of the Common Market, a new phenomena here that kind of caught in the half-way house a unit potentially as large as the United States, aiming for unity but not quite unified, not able to act as independent countries, but not able to act as fully as they would like as a unified unit, neither independent nor unified.

They have special problems during this period. They have a particularly strong need, a felt need for stability of exchange rate relationships within Europe, even though full economic and political integration is still some time off, and this affects their views of the world monetary system.

Two other relatively new developments I think are the developing power of the developing countries themselves in trade and manufactured goods. We think of them as raw material suppliers. They still are, in large part, importers of consumer and manufactured goods, but in a number of cases they are a new and real competitive force in manufactured goods. And a number of developing countries for a decade have experienced growth rates of 20 and 30 percent of exports of manufacturers, a new phenomena coming over behind these three big power centers that have been used to capturing almost all the trade in manufactured goods.

And finally I do think there is a qualitative difference in the integration of world financial markets. We have a more integrated world economy financially, an immense potential for capital flows. The idea of capital flows, disturbing capital flows certainly isn't new, but the dimensions of the flows, the change in degree is enough to make it perhaps a change in kind.

These are some of the new factors and at the same time we have to grapple with precisely those factors that Frank Graham was thinking of when he wrote those remarks that I read. We all still live in a world of sovereign states, we all have domestic impairities economically, we don't follow one world monetary policies, which was a great emphasis of his, even though we like to think sometimes in terms of an international financial system that really requires a one world monetary policy. And when we preach one gospel and practice another, we have problems.

We have other divergencies in national economies, we have structural impediments to trade, slow adjustment, we have structural factors that lead to imbalances, even if prices, relative prices or relative monetary policies don't change --

the favorite example these days, of course, being the big oil problem, which will lead to a big change in the structure of our trade and others.

We have the speculative problem, which preoccupied him. We have a problem, which I suspect is not new, maybe getting worse, but when you take certain adjustment measures, and particularly exchange rate measures, there seems to be a long and indefinite time lag between the action and the results, and this is always a difficult economic phenomena to deal with.

So I suppose the burden of this introduction at least is to impress you that we have a very difficult problem to deal with, so we don't get criticized too much when we don't deal with it all instantaneously. But I do indeed think it is a complicated problem, with a mixture of new and old elements.

And in terms of the response to the problems, I think it may be useful to think of us proceeding really on two different tracks simultaneously. One might be called the track of events or reality. Certain things seem to be happening in markets, certain events take place, a certain response is taken for right or wrong to those events. This pushes the system in a given direction.

At the same time we carry on seemingly interminable negotiations, the same people, but they -- sometimes when they get in a negotiating room, they seem somewhat removed from the people who were reacting to the market events the week before, because you look at it through a different eye, with a little different vision.

I think the fact that both of these processes are going on simultaneously is potentially quite fruitful, that the negotiations can learn from the events and the events, and at least a response to the events,can learn from the negotiations. And in a general way I think we are trying to bring these two tracks, if you will, closer together and inter-relate them. If we don't, of course, we are going to end up with reality off here and the negotiated result way off there, and I think that is probably a recipe for both bad negotiations and bad events.

Much of the debate, as we look at the events and as we look at the negotiations, on the surface at least revolves around this very issue that we are so much preoccupying people before Bretton Woods -- do we have fixed or floating rates, fixed or floating exchange rates.

Now, this debate doesn't take place typicall in ex-tremes. These days, everybody will very quickly concede in gerneral terms, you need more flexibility. That is a good word. And it is assumed on all sides that we will indeed, as a result of events and negotiations, have more flexibility in the exchange rate structure, recognizing, I suppose most basically, the need or the desire for every country for domestic freedom of action in a way inconsistent with really maintaining fixed exchange rates.

Now, the general consensus among officialdom -- and I don't pretend this is a general consensus necessarily in academe -- goes under a fashionable term of "stable but adjustable rates," which people like because it says both stable and adjustable, and those that like more flexibility tend to call it adjustable but stable rates, and those that like more fixed call it stable but adjustable rates.

Or at the other extreme of debate, which isn't so far away, as I will attempt to demonstrate, they would say, well, if you float it all, it is going to be a kind of managed float, there will be official intervention by one means or another, you don't leave the rate entirely up to the market.

Now, in practice where one draws the line between an adjustable power value and managed floating isn't altogether clear. I suppose one could say that an adjustable par value is simply the extreme of a managed float. You manage it to the point of holding it pretty steady for a while, and then you adjust at intervals.

But in any event, unless all the debate is wrong so far, I think we are going to end up with somewhat of a mixed system, some flexibility, some retention of the notion of an established exchange rate that is bound up in the term of par value.

Now, why is, on the official debate, the tendency, the insistence upon a par value and an established exchange rate, admitting that it is going to change from time to time -- why is this thought to be so important?

In my view, and it is hard to read people's minds, part of the emphasis on this may be miguided, it may be a false issue, because people like to think, even if they say it is adjustable, they like to think of a par value as being fixed and changing very infrequently if at all. And when many countires say they like a par value system, an adjustable par value system, I think what they tend to think of is at least the leading countries will really stay fixed and that they might do the adjusting, but the others -- when they look at other countries, they may want to adjust for a while, but the other countries will stay fixed, and that is a rather convenient system for an individual country, if it is the one doing the adjusting, but of course it is not a realistic system because in this kind of a system the major countries may be adjusting as well. And, in fact, when people adjust their exchange rates, you can get destabilizing speculation. I don't think this, therefore, is a strong argument for a par value system, the implicit feeling in many people's minds it maybe won't change very often.

The real issue -- and it is often expressed this way -- in my judgment, is whether it is more conducive to an audit international system, and specifically something that can be bound up in the term "international surveillance," if you have kind of a fixed official notion of what exchange rate is appropriate, and one declares an exchange rate. Because when one declares an exchange rate, one can then examine the proposition, presumably, whether that is appropriate or inappropriate. That may be a very difficult thing to do, but I think there is a sense in which people, in a rather deeply felt sense, in which people think that in a world where you look for international order and you look for international management, you need a point of reference to examine, and that this is at least a basic argument for a par value system.

The converse is -- and I hear this many times from my associates abroad -- if you have a floating system that may have some advantages, but don't expect any international management. We woule refuse in a floating system to listen to the IMF, let's say. We will manage it ourselves, if it is going to be managed. It is not a system conducive to a cooperative international effort and examination.

I am not really arguing the merits of this one way or another. I think you can overstate the difference in this respect. I do argue that it is rather deeply felt by many officials, and to the extent they feel it and act that way, there is something to the argument.

Now, this leaves us with the problem, if we follow that line of reasoning, that we work within the framework of established exchange rates, a par value system, and how do we make it work in a world in which we have seen that changes in par values can be a very disturbing phenomena. And how do we make that surveillance work that they are talking about.

Now, here I think we get to the guts of the issues that are going to be precuppying the United States and others in negotiations in coming months, because we come to the problem of making the very assessment that is bound up in ther term "international surveillance," and inducing the kind of action that is necessary by one country or another, either to make those exchange rates realistic or to change them. And this is all the process which economists think of when they speak of the famous or infamous adjustment process: How do we make the adjustment process work effectively in a system of basically established exchange rates.

Now, from the viewpoint of the United States, which is never a completely parochial viewpoint, the argument is made -- and I think correctly -- that the par value system worked quite well in terms of results during a long period after World War II, essentially because the United States did play a passive role and other people could set their exchange rates pretty much in their judgment of where they thought it was appropriate. They satisfied their objectives. With their objectives more or less satisfied, you created an environment in which trade and payments could be freed. But the system was built upon a premise that the United States would and could play a passive role and, as the United States position weakened in this passive role, when the United States didn't take active measures in a sense to protect its own position, the presumption of this form of a par value system and the stability of that par value system broke down. The dollar, upon which it rested, in a sense, weakened, and when the pivot of the system weakened, the system itself was thrown off stride and no longer worked effectively.

So you have a problem of making this exchange rate system work in an environment where no country, including the United States, can play the passive role, can play the role of the residual country. And this is a much more difficult kind of problem.

It has seemed to us that to make this work you are going to need much clearer understandings among nations as to who does what when to promote and maintain a reasonable balance of payments equilibrium. You come down to the problem of writing, in a sense, stricter rules, and enforcing stricter rules. And I am not just talking about when exchange rate changes, because one of the implications of a par value system must be that the par values don't change all that frequently. So you have to have other adjustment means, and there aren't so many of these, if people aren't willing to adjust their domestic economy very freely, there are trade measures which people don't like to take, there are controls on capital flows which for the same general type of reason the people resist trade controls, are not a preferred method of adjustment.

There are changes in aid flows which, for other reasons, are not considered highly desirable method of adjustment. So you are working in a rather circumscribed list of fully effective tools, which only aggravates the problem. And we have thought, and continue to think, that this does take much more conscious international decision making; it takes much more explicit rules of the game, as you use that term; it will take rather tangible incentives, and the tangible incentives probably should be labeled as sanctions -- nobody likes that word -- in some cases, if you are really going to get necessary responses out of governments sometimes doing things that are in themselves distasteful things for political governments to do. So we have got that whole list of issues, which I will return to in a minute.

Related to that, you have the whole issue of broadly international liquidity, who finances presumably temporary balance of payments deficits or surpluses in the context of a par value system, and this raises all the questions of a reserve mechanism.

Now, in this area -- and I am not going to go into the technical side of this -- I think there is a pretty wide consensus on some simple propositions, such as the SDR or some currency unit will become the central reserve asset, the role of gold will diminish, the role of reserve currencies will diminish, we won't any longer have a dollar-cent system.

At that qualitative level, the consensus is broad. What bothers me is we have not come yet to the rather simple question of how much liquidity or how many reserves is the appropriate amount of reserves to make a par value system operate, how much liquidity do we need, how much time do we let go by before an exchange rate has to change. And I suspect when we get down to this point, we will find rather widely differing views on a rather basic element in the equation that inevitably is tied to the adjustment problem, because it is partly a substitute for adjustment.

The essence of the proposals that the United States has made is to tie these two questions together as firmly as we can, because we think they are related. And we have chosen in essence to say that we can look at movements of reserves from one country to another as a judge, not the only judge but a primary indicator of when adjustment is necessary, adjustment of some sort, not necessarily an exchange rate change.

Now, when you say you take movements of reserves as an indicator, you have to measure it against some kind of norm, how much is a big enough move to force or stipulate action, which brings us back to the other part of the problem, how many reserves should there be in the system as a whole.

So we have tried to construct an approach which starts with a given piece of data, international agreement on how many reserves there should be in the system, in effects says there are that many reserves in the world as a whole, obviously in a normal equilibrium situation they should be divided among all the countries in the world in some ratio related to trade or economic importance.

As those reserves then shift out of equilibrium from one country to another, you have got a lot of useful information as to whether balance of payments are out of equilibrium, how much they are out of equilibrium, how far away they are from the norms, and who should act when.

Now, if you attach to that kind of a system some indication, some international code of rules as to what kind of action is appropriate and, at least as important, what kind of actions are inappropriate, in our opinion you then begin to have the necessary framework for exercising the surveillance which is the point of the par value system in the first place, and essential to its effective operation.

Clearly, this is a very summary view of the process of international monetary reform, and there are a lot of other hot issues that arise concerning speculation and capital controls, and a very interesting question, that I alluded to earlier, of how the system is managed in a world in which one country is no longer dominant, and there are competing power centers -- it may be the toughest question of all.

But I do want to emphasize, and keep tonight's eye anyway, on this difficult problem of operating a system of established exchange rates and putting the appropriate disciplines in the system in terms of the adjustment process to make it work in an orderly way. And I do think it is terribly important that we not forget about the disciplines, what I will call disciplines, in proceeding to construct this bright new monetary system, because I think we have seen evidence enough in recent years that a par value system without this kind of discipline, without the adjustment process working effectively, is going to break down.

I think we all need to pay a lot of heed to the warning implicit in those comments of Frank Grahams that I read initially about ending up with an unworkable hodge-podge in refusing to make a decision to go all the way toward a more flexible system or a refusal to accept the kind of rigorous discipline that is involved in a completely fixed rate system. We end up in some happy illusion that an in-between course, without any discipline, is going to work. I don't think it is going to work.

Fortunately, I think we have enough time to do this process and do it right. I think we have got some interim arrangements from which we can learn whiel this process is going on, as I suggested earlier. These days, one never promises no crises for a very long period of time. It is an interesting fact that the exchange rates have been steadier in the past two weeks, when nobody is defending par values, than they were before we were defending par values. But I conclude, I make no long-range predictions from that.

Someone suggested it took twenty years to have the first major crisis of the Bretton Woods system, and twenty months to have the next crisis, and twenty days to have the third major crisis. We are almost up to the twenty-day period, so we will begin going the other way now.

[Laughter]

I do think we have a flexible, by force of events, system in place. I think there is reason to believe that will be resilient enough to avoid major problems for the period ahead, as we work on the kind of difficult reform issue to which I have alluded. I hope we will take enough time to do it right. That does not mean in any way that we have time to slacken our efforts. We should be working very intensively, but I hope and believe we are going to be dealing with some very difficult and contentious issues in the process.

Thank you.

MR. : Mr. Volcker has consented to entertain -- if that is the appropriate word -- questions from the floor. I suppose, Paul, you are as skilled as anyone in handling these yourself. Why don't I let you field them for as

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long as you would care to.

MR. VOLCKER: As long as you don't imply the answers have to be entertaining.

QUESTION: You mentioned or alluded to sanctions that would have to be put together, regulations for strengthening or keeping strong the new system that comes about. What are some of these sanctions that are proposed in meetings to enforce the new system?

MR. VOLCKER: Well, it is much easier to think of these in a noncontroversial way on the side of a deficit country, because in a par value convertibility system, there are certain sanctions which come almost automatically on the deficit country, and this is considered, in fact, by most I think a virtue of the system.

They lose reserves and the ultimate sanction, of course, is when you lose enough reserves you run out, and therefore you can't maintain the rate, you have to devalue, if that is the direction in which you are going.

Now, that oversimplifies. You can borrow. So one of the sanctions you can put on a deficit country is cut off the credit line, and this is putting it more bluntly than it is put in police circles, but that is a traditional sanction on a deficit country. And we would contemplate that that kind of sanction on an orderly and agreed basis remain on the deficit country.

The sanction for the surplus country is the more difficult issue, because, while people eventually run out of reserves, it takes them longer to run out to be surfeit with reserves. And the appetite for holding reserves is maybe less than it used to be, but it is still very substantial.

So here -- well, in a sense, along the lines of our own thinking, it is the movement of reserves that itself indicates a need for action, just as it does in the case of the deficit country. You probably have to be more conscious about the sanctions. Now, you can think of relatively mild incentives, like cutting off interest on reserve holdings, refusing to permit them to hold certain types of international assets, but in the end we have suggested that if it takes this degree of push, you would have to consider sanctions on the trade side, in other words discrimination against the trade of the persistent surplus country.

Now, that sounds shocking to some people. It is not really very shocking, I think. A notion of this sort was incorporated in the Bretton Woods agreement, in the so-called "scarce currency clause." The trouble with that is that it wasn't very effective, it wasn't used. So we would say you need an effective sanction of that type to make this process symmetrical.

QUESTION: [inaudible]

MR. VOLCKER: Well, I was careful to note use the

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argument that fixed rates are good for trade, because I am not sure --

[Laughter]

QUESTION: [inaudible]

MR. VOLCKER: Well, let me clarify that answer. I think the argument is quite straight-forward. If you really had fixed rates and they stayed fixed, that is the best environment for trade. That leads to the most integrated world economy. But I don't think you really have that choice today. You are comparing two different situations. You are comparing temporarily fixed, and the temporary may be for some years. It would have to be for some years to be stable at all. But a rate that moves by jumps is a rate that moves more smoothly, and there I think the case of which is better for trade is more obscure.

But the reason you need the sanctions is the worst thing in the end under any system, just in terms of what is good for trade, is I think permitting very largel imbalances to build up and persist, because then you eventually have to have some correction. And because the imbalances have built up and persisted, the correction is more difficult and leads to both real economic problems of adjustment and political problems and tensions. And I think this is what we have been going through, and the rest of the world with us, in the past couple of years.

The adjustment problem has gotten big enough so that the whole structure of our economy in some respects is geared toward importing in some important industries. The structure of some other economies is overly geared toward exporting. The imbalance has gotten big enough so it is kind of jarring to some industries to make that adjustment. You lead to economic and political tensions, protectionist pressures, aggressive tendencies on the other side of the adjustment process, the surplus countries resisting the adjustment, that is the environment that really breeds the trade restrictions, potentially.

To avoid that environment, you want to stay closer to equilibrium, you may need the sanction because otherwise the easiest thing in the world is to do nothing. We found it easy and the rest of the world found it easy for twenty years. How do you prod them to do something?

Now, one principle I learned from a professor at Harvard, I remember, and not at Princeton -- I had to get to Harvard to learn this -- was something, some fancy constitutional doctrine of the law of the anticipated reaction. And if you have a sanction, maybe you never use it, because nobody really wants to be hauled off to jail, so to speak, so he behaves. But if you don't have the sanction, the antisocial behavior will persist, and I think that is the way.

If you had a system with sanctions, and you actually had to use the sanctions with any frequency, the system would not be working, because it is clear that the cooperative effort that is necessary was not there. That doesn't mean you don't need the sanctions there as the ultimate step.

QUESTION: I just can't see why government would want to take upon itself the burden of coping with the decisions of when and how to apply a set of sanctions. Everything that you have been saying seems to argue so overwhelmingly in favor of a float.

MR. VOLCKER: Well, I --

QUESTION: And, you know, why the U.S. government doesn't take a much stronger line than it has taken thus far.

MR. VOLCKER: All right. I think my remarks were probably a fair criticism unbalanced, because I really was making the case in terms of fixed but adjustable rates and what was necessary in my judgment to make that a reasonable system, because that is where most governments quite overwhelmingly declare their preference. So therefore I didn't have to consider the other case in a sense, and consider the negative side of flexible rates.

I think there is a real fear of two factors. One is that they are at markets, and people feel one way or the other on this issue. Some people feel markets are unstable, and other people feel they are stable, and it depends on which market you look at. You can bring evidence to bear on either side. But if the exchange market turned out to be one of the more unstable markets, people feel directly it is repercussions on trade.

But apart from that argument, there is this feeling that people cannot resist the temptation to manipulate a floating rate system, and they cannot imagine -- wrong, in this case, in my judgment -- they cannot imagine what the international code of conduct would be and how it would be enforced to kind of legitimize a floating rate system so that one country can feel that he is being dealt with fairly as against another country. And this concern runs very deep. Maybe it is just an indication of the bureaucratic mind, that they feel they must deal in a fixed known kind of quantity to make this kind of judgment.

But I think there is more to it than that. I think there is a real element in this argument growing out of tradition and history in part, that this kind of a system is more conducive to international consultation, international rule-making, international enforcement than a floating rate system. And I think this is the premise upon which this argument is basically made.

QUESTION: So, following up on that, you have said that whether the system is nominally floating or whether it is nominally fixed or adjustable, it has got to have cooperative international surveillance, and I think that is completely right.

But then you went on to say that you would look to reserve changes as the basic indicator, not the only one, but the basic indicator in a fixed but adjustable system. My question is whether you would also look to that as the key indicator under a system that was nominally floating but where people intervened? My question would be related to the fact, of course, the basic reason that you get huge moves in reserves in short terms, is speculative capital movements, and that in turn is why many countries are unwilling to let their rates float freely. So the punch line is should one be looking more at underlying balances, basic balance conditions, if you will, rather than movements in reserves as the chief factor in determining whether nominal fixed rates are to be adjusted or where people are intervening fairly under a nominally floating system.

MR. VOLCKER: It will be no surprise to you that I think the burden of the argument runs the other way, and one of the convenient side effects of using reserves as an indicator is that I think it is a kind of indicator that is rather readily applicable to a floating rate country, too. And, of course, in our proposals specifically we allow for a mixed system, where some countries at least might be floating.

The criticism of reserves, of course, is that they are subject to short-term speculative movements. Now, this depends partly on how you define them, the length of time it takes before one considers a movement significant, and the size of a movement before it is significant.

But let me grant readily that some concept such as basic balance brings useful information, and I think it would be an important consideration in whether the appropriate response to a disequilibrium is an exchange rate change or not. I would think it would be a very important factor in that connection.

But I don't want to rely upon basic balances primarily because it has two, in my view, grave defects. First of all, people do tend to act in response to reserves, whatever the basic balance trend is, and they generally move in the same direction anyway. So there is a certain reality to picking an indicator that triggers action anyway. It triggers action for the deficit country because they must act, and recently we have seen a lot of examples of triggering action on the surplus side.

Secondly, it provides this link that I was trying to emphasize between the adequacy of world reserves and the operation of the adjustment process, and that link is lost entirely if you simply use, let's say, a balance trend as your -- an underlying balance of payments trend as your indicator for adjustment.

So you can get incompatible results. You get the adjustment trigger showing no action, but somebody runs out of reserves, so he has got to act. And I want to avoid that inconsistency.

QUESTION: Unless you cycle the money back through a swap network or something.

QUESTION: On this same thing, Mr. Volcker, your proposal to the Committee of Twenty to use changes in reserves as the objective indicator, your paper was published in the President's Economic Report here so everybody can read it. I am sure you are aware that a good number of foreign officials have drawn a conclusion from this that, well, sure, it leads you to a system of stability with flexibility, but the United States gets the stability and the other countries get the flexibility and, you know, they feel, well, let's suppose there is a heavy buying of D marks, as there was recently, and the reserves generally go up, and so generally the indicator points to Germany and the Germans don't think it is their problem really. How do you answer this question?

MR. VOLCKER: I will give you a very straightforward answer to that. In terms of -- let's imagine the conditions, that all the rest of the world for some reason is out of this particular show and reserves are doing nothing and their balance of payments are doing nothing, but either Germany tightens their monetary policy or the United States eases, or something happens to the trade accounts, so the reserves move from the United States to Germany, the only two countries involved, starting in each case from a position of equilibrium.

The answer there to me is very simple: Germany initiates the adjustment action, because Germany is the smaller country here, and you get an insoluble moral dilemma if one begins carrying on a great moral argument as to whether it is the U.S. easy money policy at fault or the Germany tight money policy at fault.

The theory of this kind of approach is the same theory used on no-fault automobile insurance. Clean out the courts of all these tortuous cases about who ran into who and who turned left a little bit before he should have, when the other guy was a little bit out of his lane, too. You get all sorts of insoluble problems. You need some agreed way of doing it, and this principle is very simple.

You decide who initiates the adjustment action by where the greatest or the least weight, the least disturbance is created by the adjustment action, because they are smaller.

Now, you get a different answer: Suppose I just change the example slightly, which is probably a more accurate case, really, a more probable case, and let's say Europe tightens money and the United States eases money. Well, in this case, Europe as a whole is likely to have more weight than the United States. In that case, the finger would be pointed at the United States as the initiator of the action, and that seems to me to be a perfectly reasonable response.

If the United States is in deficit and the rest of the world is in surplus, the United States acts. If the United States is in deficit and Japan is the only big surplus country, Japan should initiate the action.

QUESTION: Could I follow that up. Just to play around with the economics of the thing a little bit, let's take the situation we have been having, where the United States has a large deficit and Japan had a large surplus, and let's assume there are no other countries involved and this was the disequilibrium. Now, Japan is the smaller country, so Japan would revalue and that would tend to correct its trade surplus. But, you see, that trade surplus would not all go to the United States to cover the U.S. deficit. It would be spread all around the world, and the United States would only get its little share of it. So then how does that bring you to the right answer?

MR. VOLCKER: Look, in real cases you may often get the answer that both ought to do something, but in this case, precisely in the type of argument you are using, if Japan adjusts, the impact on third country trade is less than if the United States adjusts, because Japan is a relatively small share of our trade, but we are a very large share of their trade, and the total Japanese economy, the total Japanese weight in the world is less, so by definition their change will be less disturbing to the rest of the world than our

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change. So the logic seems to point right in that direction.

QUESTION: You mean it is an empirical question every time?

MR. VOLCKER: Yes, it is an empirical question directly related to the weight in the world economy.

QUESTION: But how do you decide who has got the bigger weight each time? Every time something happens, does everybody get on the scale?

[Laughter]

MR. VOLCKER: No, no, no. Precisely what we negotiate is the scale. We have a type of scale, for instance.

QUESTION: I am afraid I can't see -- you are insisting that everybody has an independent monetary policy, with joint capital markets, and then everybody goes an independent way, you have big flows of funds back and forth, and then everybody jumps on the scale to see who is bigger.

[Laughter]

MR. VOLCKER: Sure, you are setting up a caricature, if I may say so. Obviously, everything is a compromise in this area. We have no coordination, we have no stability in exchange rates at all. But you don't have to renegotiate this formula every time. We have a formula. For instance -- I am not saying this is the right formula, but somebody made up the so-called Bretton Woods formula initially to establish fund quotas. You do the same thing. It is that concept which lies

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behind the thing.

QUESTION: But I gather, as Bretton Woods has developed, everybody has a veto and nobody has any leadership, the United States has a veto, we have -- you have to have 80 percent to get anywhere, Europe has a veto, and now the rest have a veto, and we are right back in the U.N. Security Council formula, where everybody has a veto.

MR. VOLCKER: Well, not quite that bad, but I agree that this is a fundamental problem. This is a different problem. This is the problem of who manages the system. And if I had a really good answer to that question, I would give it to you, but nobody has a really good answer, because we have an inherently difficult problem. You know, I would love to say let's have the United States manage the system, for instance, but it is not real.

[Laughter]

QUESTION: Or Europe?

MR. VOLCKER: Well, I am almost ready to say or Europe.

[Laughter]

But in any case, what I am ready to say is it doesn't make any difference, because Europe won't let the United States manage it and we aren't going to let Europe manage it. Now, how do you deal with that problem? And, as you say, it is a hell of a problem. I agree with you.

[Laughter]

QUESTION: I have one more question. I didn't hear once tonight the word "overhang."

MR. VOLCKER: What do you mean by "overhang"?

QUESTION: The overhang, the $80 billion, $120 billion, you name it, depending on how you count, which is messing up the system. You talk about getting on to SDR's, we all agree on SDR's, how much good we have in the system, but we have too much right now and these corporations and the government don't want to hold dollars, and now the question is -- this means that unwilling holders have dollars, how do you get them out of their hands so we can get back to some --

MR. VOLCKER: Let me make a couple of responses to that, Charlie, because --

QUESTION: Make three.

[Laughter]

MR. VOLCKER: Well, you say tell people what you do about the overhang, and I really think the first question is what overhang are you talking about because people use this term very loosely and sometimes they mean the dollars in central bank hands, and that is about $80 billion, and sometimes they mean the dollars in the Eurodollar market, and all these figures are $80 billion.

[Laughter]

Except another figure which concerns me, the overhang

I think that should concern us at least as much as those overhangs are the overhangs right here in the United States, which is about $800 billion of liquidity, let's say 10 percent of it, so that is another $80 billion that can move.

[Laughter]

Now, this raises some difficult problems. Let's suppose we magically dealt with the overhang, we funded it, whatever that means. Let's say both of those $80 billion are sitting out over there. That doesn't do us a hell of a lot of good if we haven't dealt with this adjustment problem and we simply add another $10 or $15 billion to it, and we would have great reservations about dealing with that overhang without simultaneously taking care of that other problem.

Now, even if you have taken care of that other problem, then you find, too, if you have taken care of the adjustment problem, that $80 billion plus $80 billion isn't going to be so loose, first of all. They are going to tend to hold it in dollars.

But just the mere mechanics of dealing with it are very difficult. You refer to the oil shieks and you see all these projections of $20 or $30 billion a year. Well, why do you have the projections? Because they have got the oil.

[Laughter]

And the price goes up. So let's not forget they have the oil and the price goes up when we talk about dealing with the overhang. And you go to a shiek and say, I've got a nice security I would like you to fund into." And they say, "I don't want to get funded, I want to move my dollars around where I want to and when I want to." You say, "Oh, no, you've got to cooperate." He says, "Hell, I'll cut off your oil."

[Laughter]

I don't think there is any --

QUESTION: Can't you cut off his market?

MR. VOLCKER: Pardon me?

QUESTION: Cut off his market.

MR. VOLCKER: Yes, that's great when you have got an energy shortage.

[Laughter]

I don't have any hopes that there is magic in this area, and I would rather -- I think it basically more important to work on the other problem, which is why I didn't mention this. Now, I am not saying there is nothing to be done here and that it is not a problem and we can't work on this with various financial techniques. But I think this kind of feeling that people have to deal with the overhang and the problem goes away is wrong. It is, first of all, very hard to deal with in an effective way.

QUESTION: I have two questions. The first is somewhat rhetorical. How can you expect these sanctions to last for any period of time when the U.S., in a pluralistic fashion, abandoned the fixed rate system when it was coming into heat? It seemed convenient for it, and now you have proposed a system which clearly is seen in the eyes of every other country as loaded for the U.S. So as the weight of world monetary affairs continues to shift, I don't see how you can expect the system which is now being devised for U.S. convenience to last.

The second question is, returning to the oil shieks, does the administration have any separate strategy for dealing with their acquisition of reserves or see any other factors for treating reserves at the time?

MF. VOLCKER: Well, I guess your first question involves a certain amount of premises that I do not share. We sit most of the time worrying about the system being rigged against us and I hardly know how to answer a question that makes the presumption that it is rigged in our favor.

[Laughter]

We, I think, in August of '71, were responding to some very real facts, as other countries have responded, and you don't by choice say we abandon a fixed rate system. In fact, we didn't. We went back to it in December. We had great difficulty then in making an adjustment that was inadequate, and even when it was inadequate we had difficulty making it. We wanted to make an adjustment. That is -- and this is a bias in the system quite clearly as we see it, that we wanted to make an adjustment of a kind that other countries make almost routinely, not that it is routine internally for any country, but it is routine for the international monetary system. You call up your Executive Director in the International Monetary Fund, and you tell him go around and tell the fund we want to devaluae, we have already announced it by 15 percent.

Well, that is not an option open to the United States, which indicates we are in a somewhat different and more constricted position in the operation of the system. So we went about it in a somewhat different way, but fundamentally we were trying to see what seems to me a perfectly legitimate objective, and I think it is generally agreed to be a legitimate objective.

Now, this present system, I don't know whether it works to our convenience or not. This doesn't prove anything, I suppose, but the present system, if we call it that, was arrived at, those decisions were arrived at in as much harmony among the major countries as I have seen for several years. It was a kind of unanimous appreciation that in the circumstances that existed, this was the best response in everybody's interest. And I think that kind of spirit, if you will, also pervades at the moment, at least, in these other negotiations, which take, as at least one of their points of departure, a somewhat different premise, that we will by and large, most of the countries, most of the time, will want to have a fixed exchange rate. And I hope there is an appreciation on all sides that nobody can really rig the system effectively to benefit their own position very long, because the system will break down. The other partner will sooner or later break out.

Now, I would suggest that that appreciation may be stronger in the United States simply because we are larger, not because we have any special virtue. But it is easy for the United States to understand that its reactions or its advantages or disadvantages have repercussions on others to which they will react. The smaller the country, the more I think real opportunity and illusion is that you can kind of yourself get some special advantage out of it, because you are not big enough to disturb other people.

Of course, where the system breaks down is if all relatively small countries act that way, together they are big, and the system does break down. And this has to be a fundamental appreciation of the negotiators, and I hope it exists.

QUESTION: [inaudible]

MR. VOLCKER: Well, implicitly, when I speak of fixed but adjustable rates, I am assuming that that is underlain by a system of convertibility. The problem of returning is a transitional problem, and I don't mean to underplay it by calling it a transitional problem, because there is no point in resuming this kind of obligation before you can bear the burden. And in an attenuated reserve position, to say the least, and in an

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attenuated balance of payments position, convertibility isn't sustainable, and this implies you need a period of time to restore our balance of payments position and our financial position before the United States itself can undertake the convertibility.

Now, that is one side of it. The other side is you want to do it in the framework of a system that enables you to maintain that position, so you need both the system and the facts, so to speak, but it is definitely implied in this kind of a system that countries maintaining the fixed rates would have a convertibility obligation, including the United States.

[Whereupon, the above-entitled remarks were concluded]

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

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FOR IMMEDIATE RELEASE April 3, 1973

DR. JOHN T. DUNLOP TO BE CHAIRMAN OF THE NATIONAL COMMISSION ON PRODUCTIVITY

President Nixon has appointed Dr. John T. Dunlop to be Chairman of the National Commission on Productivity.

His predecessors were George P. Shultz, Secretary of the Treasury and Assistant to the President, and Peter G. Peterson, former Secretary of Commerce, both of whom will continue to serve as advisors to the Commission.

To enable the Federal government to be more responsive to ways to improve its own productivity and to the effects of Federal actions on the productivity of others, the President also invited Caspar Weinberger, James Lynn, Secretaries of the Departments of HEW and HUD and counselors to the President, and Roy Ash, Director of the Office of Management and Budget, to be members of the Commission. In addition, the new Secretaries of Labor and Commerce, Peter Brennan and Frederick Dent, will continue to serve on the Commission to replace the outgoing Secretaries of those Departments.

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Dr. Dunlop has served with distinction as Chairman of the Construction Industry Stabilization Committee since April of 1971, and has been a member of the Productivity Commission since its inception, heading its Labor-Management work group. On January 11, the President appointed him Director of the Cost of Living Council.

Because productivity growth offers one long-run solution to the problem of spiraling inflation, Dr. Dunlop's joint responsibilities will enable him to de-emphasize controls gradually as productivity improves. The President's concern for development of long-range solutions to inflation was manifested by his budget request of $5,000,000 for the Commission and his appointment of new labor and government members representing a broad range of interests.

Dr. Dunlop has had a long and distinguished career, both as a professor of labor and economics at Harvard since 1938, and as a member of the various Governments commissions, panels, boards, and conferences.

In addition, he most recently has been the Dean of the Faculty of Arts and Sciences and Lamont University Professor at Harvard University.

His experience in both academia and in Government uniquely qualify him for the complex and varied tasks of combating inflation and promoting long-run productivity growth.

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[WA]SHINGTON, D.C. 20220 TELEPHONE W04-2041

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FOR RELEASE AT 8:00 P.M., EST April 3, 1973

REMARKS BY THE HONORABLE GEORGE P. SHULTZ
SECRETARY OF THE TREASURY
AT A DINNER HOSTED BY THE
INTER-AMERICAN DEVELOPMENT BANK
FOR MEMBERS OF THE HOUSE BANKING AND CURRENCY COMMITTEE
IDB HEADQUARTERS, WASHINGTON, D. C.
APRIL 3, 1973

Mr. President,

Mrs. Shultz and I are happy to be here this evening with the officials and friends and supporters of the Inter-American Development Bank. This dinner with members of the Banking and Currency Committee is becoming an annual tradition and it is an excellent one to have. It gives us all an opportunity to review past accomplishments and to plan together for the future.

There is no question at all about the successful record of the Bank. Clearly, much has been done since its establishment in 1959. In July of 1960, President Eisenhower made his Declaration of Newport. He called for enlarged programs for development in Latin America. Since then, the Bank has committed more than $5.0 billion for important and worthwhile projects. It has been an innovative and pioneering lender -- not only trying to increase economic growth but also trying

(OVER)

to increase the participation of people in this process.

Looking toward the future, Mr. President, I share your hopes and place great confidence in your leadership. I applaud your efforts to improve the Bank's organization and operations and to broaden its resource base. These are important initiatives on your part which we strongly support.

As a charter member, the United States is happy to be associated with the Bank's achievements. We certainly want to do our part to support its future programs. In his budget for this year, President Nixon has included $693 million for the Inter-American Development Bank. This was done in spite of budgetary stringency and strained international accounts. I assure you that the Administration will be pressing very hard for its full appropriation.

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Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE WO4-2041

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FOR RELEASE ON DELIVERY

STATEMENT BY THE HONORABLE JOHN M. HENNESSY
ASSISTANT SECRETARY OF THE TREASURY FOR
INTERNATIONAL AFFAIRS, BEFORE THE FOREIGN
OPERATIONS SUBCOMMITTEE OF THE APPROPRIATIONS
COMMITTEE OF THE HOUSE OF REPRESENTATIVES
THURSDAY, APRIL 5, 1973
AT 1:00 P.M.

Mr. Chairman:

I am here this morning to testify in favor of President Nixon's FY 1974 appropriations requests totalling $1.2 billion for the international lending institutions. I strongly urge that you and the Congress act promptly and appropriate the full amounts which are being requested.

My statement addresses itself to the broader issues of U.S. Government participation in the three institutions since the Secretary of the Treasury has overall responsibility. The U.S. representative in each of the institutions will accompany me and provide you with a statement on the details of operations in his respective bank.

Before providing information on the specific requests and on the operations of the institutions, I would like to raise two questions which I consider important. The first question is: Why should you appropriate this amount of money for foreign economic assistance at a time of extreme budgetary stringency and serious balance of payments and trade problems? This year, the entire Budget has been subject to extremely close scrutiny in terms of our national interests. The President has assigned a high priority to the international lending institutions and for very practical reasons.

It is clear, Mr. Chairman, that our first concern must be for the welfare of the American people. It is also clear that as a nation, we have important interests in the developing areas of the world. Their economic growth and stability are in actual fact important to us for economic as well as general foreign policy reasons. Our economic interdependence with all nations, and particularly these, has grown. Today, they provide raw materials, as well as manufactured and semi-manufactured products, which are vital to the continued vitality and non-inflationary expansion of our economy. A little known fact is that year after year the United States has had a positive trade balance with the less developed countries; including a modest surplus last year, when we ran a large deficit with the rest of the world. The truth is that they are good customers and it is in our interest to provide them with capital to expand their economies and their ability to repay us.

A second little known fact is that we get one-third of our raw materials imports from them now and this figure is almost certain to rise in the future. A third little known fact is the importance of how our investment earnings in these countries contribute to our balance of payments and to the welfare of our people. The United States has close to $25 billion in private direct investments in less developed countries. Multilateral bank loans help provide the infrastructure to complement the activity of private capital. In 1972, the gross inflow of repatriated earnings, dividends, interest, royalties and fees to this country from LDC's amounted to $4.2 billion. Even after allowing for investment outflows, there was still a net inflow of $2.6 billion.

Aside from the economic reasons I have just outlined, there is a second reason why the foreign assistance that we provide through the international lending institutions has been included in this year's budget. Such assistance fits in with the President's overall foreign policy. Moreover, we are now engaged in negotiations on important matters of international trade and international finance. The question of development assistance is closely related to and even interdependent with these other two questions. All three are legs of the same stool. We cannot, in my view, expect to achieve our objectives in trade and finance unless we are willing to provide our fair share for economic development.

After why, the second major question, Mr. Chairman, is how to provide foreign economic assistance. Why use multilateral institutions? The answer is that the international institutions are efficient and effective. They have been organized and operated as responsible financial institutions. They sell their bonds in the market place and they are disciplined by the demands of the market place. This discipline is reflected in good organization, management and staffing and high quality of analysis. In my judgment, there is a place for them just as there is an important place for bilateral aid programs. The multilateral and bilateral programs complement each other.

There is also the financial advantage of burden-sharing. U.S. Government paid-in contributions--an important element of what we are asking you to appropriate today--are greatly increased by paid-in contributions of other developed countries. Since the inception of the institutions, these other developed countries have provided a total of $4.8 billion. Their share is steadily increasing and smaller industrial countries who could not mount their own bilateral programs can contribute through the Banks. Thus, we get a greater degree of burden-sharing than we would otherwise get.

The paid-in capital contributions of the U.S. Government are also leveraged to a great extent by the Banks' borrowings in the world's private capital markets. Since the establishment of the Banks, 77 percent of capital funds, or a total of $14 billion has come from private markets and has been relent at market or near market rates. This represents an enormous mobilization of private capital for economic development purposes at no cost

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to the U.S. taxpayer. Furthermore, in recent years a large and growing percentage of these borrowings have been made in Western Europe and Japan. In fact, during the past two years borrowings by the international institutions have taken place almost exclusively outside the United States. As a Treasury official, I consider these budgetary and foreign exchange factors important ones to keep in mind.

Against this background, let me turn now to the specific proposals before you which are summarized in this table by institution.

FY 1974 Budgetary Requests for the International Financial Institutions
($ millions)

International Development Association		$320
Inter-American Development Bank		
Callable Ordinary Capital	($168)	
Paid-In Ordinary Capital	(25)	193
Fund for Special Operations		500
Asian Development Bank		
Special Funds		100
Callable Ordinary Capital	($ 96.8)	
Paid-In Ordinary Capital	(24.2)	121
		$1,234

New budget authority sought this year amounts to $1.2 billion: $320 million for the International Development Association; $500 million for the Fund for Special Operations of the Inter-American Development Bank and $193 million to its ordinary capital resources; $100 million to the Special Funds of the Asian Development Bank and $121 million to its ordinary capital.

A large portion of this total relates to programs for which funding was sought but not received in fiscal 1973. The amounts not funded under the fiscal 1973 Continuing Resolution are: $193 million for the Ordinary Capital of the Inter-American Development Bank, $225 million for the Fund for Special Operations and $100 million for the Special Funds of the Asian Development Bank. Projected budgetary outlays for fiscal 1974 amount to $548 million practically all of which stems from prior year appropriation.

The IDA contribution of $320 million is the second tranche of the third replenishment. The third replenishment formally came into effect in September 1972 when the United States agreed to make available its share of $960 million. Shortly thereafter the United States paid its first tranche of $320 million under the Continuing Resolution of October 26, 1972. Under terms of the original agreement, the second tranche was due on November 15, 1972.

As members of the Committee know, IDA is the concessional lending affiliate of the International Bank for Reconstruction and Development. Its funds are used to finance development projects and programs on concessional terms--in the poorest of the developing countries, i.e., those countries with annual per capita incomes of $300 or below. Its terms are 50 years maturity, including 10 years grace, and a service charge of three-fourths of one percent per annum. As of 31 December 1972,

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it had made total cumulative commitments of $4,608 million mainly in agriculture and transportation. In recent years, it has placed an increasing emphasis on education, housing and related areas.

In its Report of May 11, 1972, the Committee of Conference on supplemental appropriations said "The managers agree that there is no intention of denying each of the three annual installments of $320,000,000 in the next three fiscal years and that the first installment will be provided in the fiscal year beginning July 1, 1972." I urge this subcommittee to act promptly in the spirit of that joint explanatory statement.

The $193 million for the Inter-American Development Bank's Ordinary Capital is part of the third and final tranche of the current increase in those resources. $168 million of this amount represents callable guarantee capital and does not constitute a budgetary outlay. $25 million is to the paid-in. It will, however, be paid in the form of non-interest-bearing letters of credit and not constitute a budgetary outlay in fiscal 1974. These two amounts, as well as the $193 million appropriated by the Congress in fiscal 1973's Continuing Resolution, will be due under terms of the original agreement on June 30, 1973.

The $500 million for FSO resources represents further funding toward our $1 billion contribution to the concessional lending resources of the IDB. All of these funds will also be provided in letter of credit form to be drawn down later.

As a result, there will be no budgetary impact in FY 1974. Under the original understanding between the U.S. and Latin countries, the U.S. would have completed the final installment of the $1 billion contribution by the end of fiscal 1973. Assuming full appropriation of this year's request, $775 million will have been provided before the end of fiscal 1974. Provision of the requested $500 million will thus still represent a considerable stretch-out of the U.S. contribution to the FSO replenishment.

On January 1, of this year, uncommitted hard currency resources available to the FSO were $353 million. This included $20 million from the Canadian contribution, $275 million which we made available on December 21, 1972 under the Continuing Resolution and prior appropriation, and $56 million in residual resources. These funds, however, are now expected to be exhausted in the final quarter of this year. Action on your part, is needed if IDB concessional lending activity is to continue through this calendar year.

The first Asian Development Bank request is for $100 million for Special Funds for concessional lending. It was deleted entirely for FY 1973 under the terms of the Continuing Resolution. Thus far, the United States has not been able to make any funds available to the Bank for this program, although proposals to do so have been before the Congress for several years. Other developed nations,--the United Kingdom, Canada, Australia, New Zealand, Netherlands, Norway, Germany, Italy, Belgium, Finland and Japan--have gone ahead to make more than $240 million available to the Bank on an ad hoc bilateral basis. As of December 31, 1972, $201.5 million had been committed on Special Funds loans, and the balance of the Bank's Special Funds resources is expected to be fully committed by September of this year.

Under the terms of authorizing legislation, passed by the Congress in February 1972, the funds in this request are to be tied to the purchase of goods and services and priority is to be given to projects and programs in Southeast Asia. Until we contribute, U.S. suppliers will remain ineligible for procurement from the contributed Special Fund resources of the Bank. This item has been long delayed. I urge its prompt passage.

The other portion of our ADB request relates to the increase in the Ordinary Capital resources of the Bank. The Governors of the Bank, with the U.S. Governor abstaining, passed a resolution in November 1971 authorizing a 150 percent increase in the capital stock. This was done in order to permit an orderly 10 percent per annum increase in the ordinary capital lending of the Bank over the years 1973-75. By November 1972, enough members had taken up their shares to permit the increase in resources formally to come into effect. When this happened, the voting power of the United States was automatically reduced from 16 percent to 8 percent while that of other countries rose proportionally in the absence of U.S. participation.

Authorizing legislation for U.S. participation will be submitted to the Congress shortly. We are thus testifying today on an appropriation request that will be for later transmittal Assuming approval of the proposed legislation on change of par value, the total authorization would be for $362 million. Of this amount, 80 percent or $289 million would be callable guarantee capital and not constitute an actual budgetary outlay. The remaining 20 percent, $72.4 million, would be paid-in over a three-year period, 40 percent in cash and 60 percent in non-interest-bearing letters of credit to be drawn down later as needed for disbursement. New budget authority being requested for fiscal 1974 would be $121 million. FY 1974 budgetary impact is limited to $9.6 million. This appropriation should go forward in order to permit the United States to regain its original equity position in the Bank.

That completes my review of the specific amounts being requested. I would like to turn now to some matters that may result in future appropriations requests. Over the past year, Treasury has sought to find better ways of consulting with the Congress in advance of formal appropriations requests so that, as specifically requested by this committee, no new international commitments are entered into without your full prior knowledge. It is in this spirit that we have kept the Congress and your committee, Mr. Chairman, informed by letter and by informal briefings. Now I want to summarize, formally and for the record, where we stand on two important issues--a fourth replenishment of IDA and the restructuring and replenishment of ADB Special Funds.

First, with regard to IDA IV, as I indicated in my letter to you of March 6, a meeting of Part I countries was held on

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March 13, in London. Other developed nations are now clearly ready to go ahead with a new round of contributions to permit IDA lending to continue in FY 1975 and beyond. Thus far, the United States has played a passive role, informing others that until consultations were held with our Congress, we would not be in a position to discuss amounts. Nonetheless, a broad consensus has developed among the other developed nations on a three-year pay-in program at an annual rate of $1.5 billion. On the basis of our existing percentage rate, this would mean an annual U.S. contribution of $600 million for three years beginning in FY 1976. However, we have also made it clear that a very large reduction in our percentage share is necessary for our participation in view of our serious balance of payments situation.

Mr. Chairman, you yourself have pointed out the necessity for consultations on these matters with the Appropriations Committees. The Treasury Department wants to have the benefit of your Committee's general views on amounts before continuing further with the negotiations.

The next meeting on this matter will be held in Tokyo in May. We would welcome, Mr. Chairman, the participation of members of this sub-committee as members of the U.S. delegation to that meeting.

As we have explained in the past, because of the number of nations involved, we need quite a long lead time. We would hope that negotiations could go forward in time for submission to legislatures by the end of the year.

A meeting was also held in March on a proposal to restructure and replenish the Special Funds resources of the Asian Development Bank. As I indicated in my letter, this was a follow-on to a preliminary meeting of ADB developed member countries held on this subject in September 1972, at the time of the IMF/IBRD annual meetings. The proposal would create a pool of funds, on the IDA model but smaller, to replace the present system of bilateral contributions made on an unscheduled basis. At both meetings, the U. S. position was the same. We could not now move beyond acceptance in principle of the concept of the Fund, that is, that ideally funds should be made available on a multilaterally-negotiated basis and be available for use under common terms and conditions. In taking this position, it was emphasized that the United States was experiencing serious trade and balance of payments problems which would affect our ability to provide funds on an untied basis.

In order to accommodate to the fact that we have not yet made our initial contribution of $100 million to Special Funds, other developed members are now considering the possibility of launching and contributing to this new fund structure in two stages, representing two-thirds and one-third of the total, respectively. Under this approach, the $100 million contribution, presently authorized but not appropriated, could serve as our share of the first stage and could be tied to procurement of U.S. goods and services. This approach would also imply, in the second stage, a further U.S. contribution of $50 million. Since the overall amount being discussed is $525 million, our share under the two-stage arrangement would be approximately 28 percent of the total. As you recall, others have already paid in more than $240 million, which would not count as part of the new proposal although our initial contribution would. I also need an expression of your views before we can proceed further along this line.

The final part of my statement, Mr. Chairman, deals with two reports released by the General Accounting Office: the first on Treasury's management of U.S. participation in the Inter-American Development Bank, dated August 22, 1972; the second on our participation in the World Bank and IDA, dated February 14, 1973.

As indicated, both in the annex of the report, itself, any in my testimony before Mr. Fascell last fall, Treasury has accepted and implemented the recommendations of the IDB report. However, we very strongly disagreed with its overall highly critical tone. We think that Treasury has a good and improving system for managing U.S. participation in the Bank. In my judgment, the GAO report did not take adequate account of progress achieved by Treasury and the Bank itself. The details of our implementation of the recommendations are contained in a separate report I am now submitting for the record.

The GAO Report on our participation in the World Bank and IDA has a number of recommendations which are identical to those in the IDB Report. We are now completing our formal response to the Government Operations Committees of the House and the Senate. We will also report to this Committee on our progress in implementing these recommendations as well.

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SUMMARY OF TREASURY DEPARTMENT ACTIONS TO IMPLEMENT GAO RECOMMENDATIONS

U.S. System for Appraising and Evaluating Inter-American Development Bank Projects and Activities

The Treasury Department's complete response to the Report is contained in an annex of the Report, itself, and in Assistant Secretary Hennessy's testimony before a subcommittee of the House Foreign Affairs Committee on September 22, 1972. Although the Department has accepted all of the recommendations which were made, we very strongly disagree with the over-all highly critical tone of the Report. We continue to think that we have developed a good and improving system for managing U.S. participation in the Bank. In our judgment, the GAO Report has not taken adequate account of progress achieved by the Treasury Department and the Bank, itself.

The GAO's major recommendations were:

1. Recommendation:

The United States should sort out the recommendations of the Group of Controllers it wishes to support and vigorously pursue their acceptance and recommendation.

Action: The U.S. Government has adopted and supported firm positions on all the recommendations in the three Controller Group Reports acted upon by the IDB Board of Executive Directors. The Board, with the support of the United States, has taken action on all the recommendations in those reports. Implementation of the Board's decisions is being pressed. At the initiative of the United States, a deadline has been established for receipt of the Bank management's comments on reports submitted by the Group, and a system of semi-annual reports on progress made toward implementation of recommendations has been set up. The first of these reports is due on June 30, 1973.

Two other Controller Group Reports have been released very recently and are under study and review within the U.S. Government. These two Reports are: Reporting Systems (December 1972) and Preinvestment Studies (January 1973).

2. Recommendation: The United States should arrange for the development of instructions that stipulate the desired depth and parameters of the U.S. process for appraising proposed projects to guide U.S. officials and technicians in making their appraisals. These instructions should include a clear statement of policy regarding the appraisal of the economic and technical aspects of the projects.

Action: Instructions and guidelines for appraisal of loan proposals have always existed within the U.S. Government. What has not heretofore existed is their formal codification. A preliminary edition of this formal codification has, however, been issued this month. It is available to officials and technicians in the five NAC agencies. It now contains nearly 50 pages of detailed information relating to loan proposal documentation, project criteria, special policy criteria,

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and country performance criteria. It can be expanded and modified to accommodate additional requirements or changes in policy.

3. Recommendation: The United States should arrange for followup on the U.S. positions with respect to specific loan proposals to determine the extent to which they have been accepted in the implementation of the project. Provision also should be made for the feedback of results to those officials and technicians participating in the appraisal process for use in subsequent appraisals.

Action: Followup action has always been taken on U.S. positions on specific loan proposals. It is now being done on a formalized basis. The U.S. Executive Director's Office at the IDB reports regularly both verbally and in writing to members of the NAC Staff Committee on points they have raised. These reports are now incorporated into the Minutes of meetings. In addition, a new reporting requirement has been added to the Combined Economic Reporting Program (CERP). It requires reports from U.S. personnel in the field on IFI-financed projects and on project proposals which may be submitted to the IFI's in the future. Revision of this requirement will be made as necessary to assure an adequate flow of information back to Washington.

4. Recommendation: The United States should take the necessary steps to develop, and get agreement among member countries on firm and sustainable criteria for eligibility

for IDB lending. Such criteria, although based predominantly on the economic performance of recipient countries, should also provide for such things as guidelines on access to resources of FSO by more developed countries and recognize the need for value judgments in certain individual cases.

Action: Economic performance of recipient countries has always been considered by the Bank. This is done through annual economic reviews conducted under aegis of the CIAP. Reviews are attended by representatives from the IMF, IBRD, IDB, and USAID. In two instances, the IDB has halted lending activity for extended periods of time because of inadequate economic performance.

In July, 1972, the Board of Directors of the IDB received a management plan to phase down access to FSO resources by relatively more advanced recipient countries. This phase-down will take place over a three-year period in 1972-5 and reduce the share of the four largest countries from 40 percent to 20 percent. This was a course of action earlier urged by the U.S. Government.

Department of the TREASURY
WASHINGTON, D.C. 20220 TELEPHONE W04-2041
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MEMORANDUM TO THE PRESS: April 5, 1973

The Treasury Department responded today to questions that have arisen as to the intent of the Treasury's news release issued on March 8, 1973, concerning the method of computing bond yield under the proposed arbitrage bond regulations.

The March 8, 1973, release is directed to situations where yield on governmental obligations and acquired obligations, when computed under the IBA or "bond-year" method, is significantly distorted in comparison with true, actuarial yield by the use of "deep" discounts or other devices specified in the release. The release provides that in such situations the IBA method may not be relied upon and that yields are to be computed by use of the actuarial method.

In response to inquiries as to the extent to which computation under the IBA method may be disregarded, Treasury said that where there is compliance with the arbitrage bond provisions when yields are computed on the actuarial method, the issuer need not make, and may disregard, computations under the less accurate IBA method.

Treasury has also received inquiries as to whether the release is applicable where knowledge of its issuance was obtained by an issuer after bids had been accepted but the obligations of the parties were reversible in the event of failure to receive an opinion of counsel that interest on the governmental obligations was tax exempt. It was the intent of Treasury that counsel in those transactions could not disregard the existence of arbitrage under an accurate computation once such distortions in yield had been publicly called to their attention and, accordingly, that the release would apply and the governmental obligations would be taxable unless the yield computation requirements of the release were satisfied. Treasury has consistently so advised persons who inquired as to the relationship between the release and counsel's opinion. Nevertheless, there may have been some basis for reaching a contrary conclusion, particularly since the release did not specifically cover the point. Therefore, if such a transaction has now been closed without satisfying the requirements of the release, pursuant to an opinion of counsel rendered in good faith, Treasury stated that the transaction will not be disturbed.

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

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FOR RELEASE AT 2 P.M. APRIL 5, 1973

TEXT OF SECRETARY OF THE TREASURY GEORGE P. SHULTZ'S
REMARKS TODAY BEFORE THE
SUBCOMMITTEE ON PRODUCTION AND STABILIZATION
OF THE
SENATE COMMITTEE ON
BANKING, HOUSING AND URBAN AFFAIRS

The seriousness of the food problem is underscored by the price data released this morning, which showed wholesale prices of farm products and processed foods rising sharply from February to March.

As you know, one week ago the President announced the imposition of ceiling prices on red meats. I will first describe this action and its background, and then move on to a review of the other agricultural policy changes that we have made in an effort to increase the supply of foodstuffs and to check rising food prices.

Retail food prices increased by 5 percent in 1972 -- somewhat more rapidly than other consumer prices -- and then moved sharply higher in early 1973 -- 4.7 percent in January and February alone. This spurt was led by prices of red meats, which went up 10.4 percent in the first two months of 1973. This rise in food prices generally, and in red meats specifically, is the result of a sharp increase in demand during 1972 and early 1973 while, at the same time, supplies have not increased.

The ceilings imposed last week apply to beef, pork, and lamb products sold at the retail, wholesale, and packer levels. The ceilings do not apply to animals on the hoof; we feel it is vitally important not to impede the build-up of livestock herds now under way. This build-up will bring increased meat supplies-- and lower prices -- later in 1973 and in 1974. In the meantime, the ceilings, which are of indefinite duration (though by no means permanent), are intended to prevent any further rise in red meat prices from taking place, while increased supplies come into better balance with demand.

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In response to market forces, farmers are increasing their plantings of crops and building up their livestock herds. In addition, starting last June but mostly in December and January, the agricultural policies of the Federal Government have been adjusted sharply and comprehensively to insure that this increase in supplies takes place as quickly as possible.

- Set-aside acreage of cropland has been reduced by about 50 million acres to permit greater production of grains.
- Government-owned stocks of grains are being sold.
- All Government loans on farm-stored grains are being terminated.
- Meat import quotas, which were first suspended in June 1972, have been suspended for all of 1973. Thus far in 1973, meat imports are up 20 percent compared with the same period last year.
- President Nixon announced last week that he would ask the Congress for legislation to suspend the tariffs on red meats.
- Additional imports of nonfat, dried milk have been permitted, and the Tariff Commission is currently investigating the possibility of raising cheese import quotas by 50 percent.
- All direct export subsidies on agricultural products have been ended.

These and other actions should bring forth an enlarged supply of food products. In all but a few cases, the impact of these actions is still ahead of us. However, a review of changes in some key farm and food prices at wholesale since mid-March, when the wholesale price data were collected, shows some further increases but also some declines. For example, cattle prices are down about 4 percent. On balance, the pattern thus far suggests a leveling off in farm prices for this month.

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FOR RELEASE ON DELIVERY

STATEMENT BY REUBEN STERNFELD
ALTERNATE U.S. EXECUTIVE DIRECTOR
INTER-AMERICAN DEVELOPMENT BANK
BEFORE THE FOREIGN OPERATIONS SUBCOMMITTEE
OF THE APPROPRIATIONS COMMITTEE OF THE
HOUSE OF REPRESENTATIVES
THURSDAY, APRIL 5, 1973
AT 1:00 P.M.

Mr. Chairman:

I would like to present to the Committee a summary of the record of the Inter-American Development Bank since my appearance last year. This summary includes the lending activities of the Bank as well as what has been done to strengthen and improve its operations. It also details actions taken in response to suggestions and recommendations on increasing the effectiveness of U.S. participation in the Bank.

For calendar year 1972, the Inter-American Development Bank committed a total of US$807 million for loans in various currencies. This represented 52 loans to foster Latin America's development and is a record figure for the Bank's lending in any one year. It has pushed the Bank's cumulative lending level to US$5.4 billion (719 loans). I am sure, however, that you recognize the Bank's loans are only one part of the story. The projects financed with these loans have a total value of US$16 billion. As one can appreciate from these figures, the Bank's role as a catalyst for other development investment financed from both private and public sources is important in our hemisphere.

In specific terms, concrete results from lending to this point can be summarized as follows:

1. 6.0 million acres have been brought into new or accelerated production;

2. 20,000 miles of main highways and farmer-to-market roads have been built or improved;

3. 2.7 million kilowatts of new electric generating capacity has been installed.

4. 628 universities and schools have been helped by IDB loans.

5. Nearly 320,000 housing units with community facilities have been constructed.

6. 3,945 water supply and sewerage systems have been put in operation.

7. 5,097 small entrepreneurs have been helped through the Bank's intermediate credit program.

Of the US$807 million total 1972 lending, US$344 million was authorized from the resources of the Fund for Special Operations and US$443 million was authorized from Ordinary Capital. In addition, US$20 million was committed from special funds entrusted to the Bank by certain non-member countries.

Several additional statistics will be of interest: during 1972, disbursements against outstanding Bank loans increased to a level of US$479 million, repayments of principal reached

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US$147 million -- again the highest level in the Bank's history -- and were all current with two exceptions of private borrowers in Brazil and Chile, who were delinquent in amortization and interest payments. The Bank continues to pursue its interest in these cases and is confident that there will be recovery.

Borrowings on the capital markets in Japan and Europe were US$141 million in new funds. Thus, for the second consecutive year the Bank was able to obtain needed funds without recourse to the U.S. capital market. In total, 58 percent of IDB borrowings have been placed in markets outside the United States. I am attaching a table which shows the distribution of the Bank loans by sector for the year 1972, and for the 11 years of the Bank's life, as well as a table on the undisbursed balances of approved loans.

It is heartening to be able to report the above progress in lending activity and mobilization of resources for development. It is also gratifying to be able to report improvements and new departures in the Bank's approach to the allocation of its resources to the development problems of Latin America in the context of the 1970's.

From time of its establishment, the Bank has exercised leadership in making loans for projects and programs designed to reach the economic and social problems of the low income people of Latin America. Progressively, the Bank has evolved new techniques and approaches to meet the circumstances as they exist. The heavy emphasis on agriculture in the Bank portfolio is one measure of this; the number of projects in potable water and education is another expression of this concern. During 1972, we continued along these lines with additional loans for small farmer credit, rural potable water and small irrigation systems. The Bank has also been able to evolve new approaches to the serious problems of urban development in the region and to promote further regional economic integration, as reflected in a 1972 loan from Ordinary Capital for US$80 million to finance a $432 million integrated hydroelectric power plant being built jointly by Argentina and Uruguay -- the most important economic integration project ever undertaken by the Bank.

During the past year, the Bank has made significant progress in reevaluating and realigning its organization policies and procedures to adjust them to the realities of current needs and circumstances. In July of 1972, the Bank put into effect a significant new policy designed to allocate a progressively increasing share of its soft resources to relatively less developed member countries. Correspondingly, the Bank is phasing down its soft loan support to the larger and relatively advanced member countries. As part of this policy, the Bank established a category of relatively less developed countries which includes nine of its 24 members. Forty-nine percent of FSO loans were allocated to these nine countries in 1972, compared with an average of 23 percent in the years 1966-1967. The goal for 1973 and future years is to continue to assign higher proportions of the Bank's soft resources to these relatively less developed countries. This has the effect of using scarce soft loan resources where they are most needed, and allocating the more costly resources to those countries in relatively better economic condition.

Another major change in FSO policy will have its effect beginning this year when loans made from the new FSO resources will be required to be repaid in the currencies lent. This replaces the former policy of allowing most borrowers the option of repaying either in local currencies or in dollars.

Significant actions are underway to implement the organizational changes recommended by a major U.S. management consulting firm. Fundamental procedural changes are also being made to further improve the control and quality of Bank operations. Some of the reforms include: (1) removing the technical project preparation and appraisal function from supervision by officers making loans. This independence enhances the importance of technical and engineering judgments in project development and execution, particularly in the analysis of the feasibility and efficiency of a project. (2) Combining in one office and on a geographic basis, the overall responsibility for loan preparation and administration until completion of a project. This change will clarly pin-point responsibility for operations. (3) Establishing a special group of top Management to function as a Loan and Technical Assistance review and evaluation committee. The committee now regularly screens out loan requests when initial applications are submitted. It also reviews all projects before they are considered by the Board and rejects those not ready for Board action.

In the area of management control, there have been also some important changes. A controller (a Canadian citizen) has been named with broad responsibility to assure that the Bank's activities are consistent with policies, programs, procedures and directives. As noted by the GAO, the Board of Executive Directors' Group of Controllers is now presenting greatly improved reports with specific actions recommended for the Board and Management. A follow-up system has been established to see that recommendations accepted are carried out. In addition, the Bank is combining all procedures in an organized manual system and setting up a master plan for computer use. In this connection, I also want to note that with a major increase in level and complexity of operations, the 1972 Administrative expenses were only 2.9% above those for

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1971, and no increase in authorized staff positions has been approved by the Board for 1973.

I don't mean to say that the entire job of management improvement has been accomplished. There continues to be a need for further organizational tightening, for improvement in the operations of the Field Offices and for strengthening of the management and information systems. However, I am satisfied that the Bank will pursue these and additional areas of economy and efficiency in the coming year.

The GAO has issued two reports relating to the Inter-American Development Bank. The first, an evaluation of the early work of the Group of Controllers and the second on the effectiveness of U.S. participation in the IDB. As I just indicated, the work of the Group of Controllers has benefitted from the views of the GAO and there have been major improvements. The GAO is currently making an assessment of their most recent reports.

With regard to GAO views on U.S. participation in the Bank in general, we have accepted their recommendations. The GAO recommended that the U.S. should support the work of the Group of Controllers. This is being done. To date, 5 reports have been prepared by the Group. Of these, 3 have been studied by the U.S. and action has been taken by the Board of Directors. The remaining two reports were only recently completed, and they are presently undergoing detailed study by U.S. agencies, and will shortly go to the Board for formal action. In addition, at U.S. initiative, the Board has requested Bank management to report twice a year on the steps taken to implement the Board decisions on Controller Group recommendations on all reports. The first implementation report is due June 30, 1973.

In closing, I would like to refer to the list of project proposals as of December 31, 1972 totalling $1.4 billion, which has been made available to the Subcommittee and which the Bank staff is reviewing. It is from this list and additional applications which may come in during the year that loans will be approved by the Board of Executive Directors. Some will be rejected. A good number will be altered in the process of review and evaluation, but this list provides the bulk of the work of the Bank in this year, depending on the availability of funds including the sums we are requesting today.

INTER-AMERICAN DEVELOPMENT BANK

DISTRIBUTION OF LCANS BY SECTOR

Sector	1972	1961-72
	(In millions of dollars)	
Agriculture	$130	$1,283
Electric Power	233	973
Transportation & Communications	124	951
Industry and Mining	160	813
Water and Sewage Systems	61	595
Urban Development	44	402
Education	29	197
Preinvestment	9	100
Export Financing	16	91
Tourism	1	35
TOTAL	$807	$5,541

UNDISBURSED BALANCES OF APPROVED LOANS 1/

(as of December 31 of each year)
in Millions of U.S. Dollars

	ORDINARY CAPITAL			FUND FOR SPECIAL OPERATIONS			
	Dollars and other Hard Currencies	Latin American Currencies	TOTAL	Dollars	Latin American Currencies	TOTAL	TOTALS
1961	90.0	33.2	123.2	43.4	2.1	45.5	168.7
1962	146.3	28.2	174.5	66.8	10.1	76.9	251.4
1963	249.8	37.5	287.3	78.3	16.7	95.0	382.3
1964	284.1	56.0	340.1	98.5	21.2	119.7	459.8
1965	321.7	44.1	365.8	241.0	45.5	286.5	652.3
1966	325.4	38.2	363.6	428.8	103.6	532.4	896.0
1967	362.5	36.8	399.3	618.5	154.9	773.4	1,172.7
1968	433.7	32.7	466.4	689.4	165.8	855.2	1,321.6
1969	515.8	23.7	539.5	827.8	246.8	1,074.6	1,614.1
1970	552.1	30.2	582.3	943.5	326.6	1,270.1	1,852.4
1971	618.1	43.4	661.5	1,026.4	377.9	1,404.3	2,065.8
1972	810.1	61.9	872.0	1,032.0	375.9	1,407.9	2,279.9

1/ Does not include uncommitted balances, nor undisbursed balances of loan participations sold.

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NEWS
OFFICE OF REVENUE SHARING
WASHINGTON, D.C. 20220
TELEPHONE WO4-8711

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New telephone No. 634-5191

FOR RELEASE AT 10:00 A.M., EST
FRIDAY, APRIL 6, 1973

GENERAL REVENUE SHARING CHECKS MAILED TO 36,500 STATE AND LOCAL GOVERNMENTS

Graham W. Watt, Director of the Treasury Department's Office of Revenue Sharing, announced today the mailing of the first 1973 general revenue sharing payments to more than 36,000 eligible State and local governments.

The checks mailed today directly to 36,492 governments represent payment for the first three months of 1973 and total $1,482,001,010. An equal amount will be distributed in early July. Mr. Watt stated that the two checks covering the first half of 1973 will have no percentage withheld for reserve for future adjustments as has been done in the two previous general revenue sharing payments for calendar year 1972.

"In the last four months, the treasuries of State and local governments have been enriched by about $6.6 billion of general revenue sharing funds," Watt noted. "Revenue sharing is the keystone of President Nixon's new Federalism which puts resources in the states and cities where the responsibility for decision making can best be exercised."

Since the last payment which was made in early January, each recipient government has provided the Treasury Department with written assurance of compliance with the requirements of the State and Local Fiscal Assistance Act of 1972. The Act requires these assurances signed by the governor or chief executive officer as a condition of continued eligibility to participate in the general revenue sharing program. Less than 1,500 governments have not yet responded, and their payments are being withheld until they have complied.

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Those governments which appealed the data elements used to compute previous entitlements and whose appeals have been accepted by the Treasury Department have been notified of this action. Any changes in data elements which have occurred because of this verification procedure have been used in calculating the current entitlement payment. Any adjustments to be made in previous payments as a result of these data corrections will be accomplished in the next entitlement period which begins July 1.

New regulations to be filed with the Federal Register this week will apply to the use of the funds being distributed today. These regulations replace interim regulations first issued by the Office of Revenue Sharing to cover the payments for 1972.

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FOR IMMEDIATE RELEASE April 6, 1973

HELMUT SONNENFELDT NOMINATED TO BE
UNDER SECRETARY OF THE TREASURY

Helmut Sonnenfeldt, nominated by President Nixon today to be Under Secretary of the Treasury, will be a principal adviser to Treasury Secretary George P. Shultz in the Secretary's capacity as Chairman of the East-West Trade Policy Committee and Chairman of the United States section of the Joint U.S.-U.S.S.R. Commercial Commission. Mr. Sonnenfeldt will be Chairman of a working group of the East-West Trade Policy Committee with representation from the agencies on the Committee. He will also be a senior adviser to the Secretary on aspects of U.S. foreign economic policy that relate to international security and political interests.

Mr. Sonnenfeldt succeeds Edwin S. Cohen, who resigned as Under Secretary in January to return to private life.

Since January 1969, Mr. Sonnenfeldt, 46, has been a Senior Staff Member of the National Security Council Staff for Europe and East-West relations. In that post he represented the NSC on all negotiations leading to the economic agreements between the United States and the U.S.S.R. and Eastern Europe. He is a Foreign Service Officer, Class 1.

A native of Germany, Mr. Sonnenfeldt holds AB and MA degrees in Political Science from Johns Hopkins University, Baltimore, and the Johns Hopkins School of Advanced International Studies, Washington, D. C. He previously attended the University of Manchester, England. He served in the U.S. Army during World War II.

A specialist in Soviet and East European affairs, Mr. Sonnenfeldt was with the Department of State from 1952 to 1969, where from 1966 to 1969 he was Director of the Office of Research and Analysis for the U.S.S.R. and Eastern Europe. He has served on U.S. delegations to numerous meetings and conferences with the Soviet Union and has accompanied the President on his visits to Europe and the Soviet Union.

Mr. Sonnenfeldt is married to the former Marjorie Hecht of Baltimore, Maryland. The Sonnenfeldts have three children.

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FOR IMMEDIATE RELEASE April 9, 1973

TREASURY ANNOUNCES STAINLESS STEEL WIRE RODS FROM FRANCE ARE BEING SOLD AT LESS THAN FAIR VALUE

Assistant Secretary of the Treasury Edward L. Morgan announced that stainless steel wire rods from France are being, or are likely to be, sold at less than fair value within the meaning of the Antidumping Act, 1921, as amended. Notice of the determination will be published in the Federal Register of April 10, 1973.

The case will now be referred to the Tariff Commission for a determination as to whether an American industry is being or is likely to be, injured. In the event of an affirmative determination, dumping duites will be assessed on all entries of stainless steel wire rods from France which have not been appraised and on which dumping margins exist.

A notice of "Withholding of Appraisement" was issued on January 8, 1973, which stated that there was reasonable cause to believe or suspect that there were sales at less than fair value. Pursuant to this notice, interested parties were afforded the opportunity to present oral and written views prior to the final determination in this case.

Stainless steel wire rods produced by Creusot-Loire of Paris, France, are excluded from the withholding of appraisement ordered in this case and the determination of sales at less than fair value now being issued since 100 percent of its export sales during the period under consideration were examined and the home market price of Creusot-Loire's merchandise was found to be lower than the purchase price of such or similar merchandise in every instance.

During calendar year 1972 imports of stainless steel wire rods from France amounted to approximately $4 million.

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FOR RELEASE UPON DELIVERY
TUESDAY, APRIL 10, 1973, 1 P.M., PST

EXCERPTS FROM REMARKS
BY THE HONORABLE EDGAR R. FIEDLER
ASSISTANT SECRETARY OF THE TREASURY FOR ECONOMIC POLICY
AT TOWN HALL OF CALIFORNIA
LOS ANGELES, CALIFORNIA
APRIL 10, 1973

The vigorous expansion in economic activity continues to sweep ahead. Production, sales, employment, personal income and profits are all on a strong uptrend, and unemployment is declining. In addition, all the portents of future economic activity point decisively toward further gains in the months ahead.

This strong economic performance, however, has been completely overshadowed by the recent upsurge in inflation. This surge of price increases has been concentrated in the farm and food sector, but some industrial commodities have also been marked up sharply.

Public discussion of the burst of price increases -- discussion of how it happened and what should be done about it -- has focused almost exclusively on the Government's program of price and wage controls. This emphasis on the controls is worrisome, since it threatens to divert our attention from the basic causes of the situation and from the main targets of economic policy.

Price and wage controls, if they are flexible enough to reflect changing economic conditions, can make a contribution to the anti-inflation effort -- as they did in part during 1972. But what happens to inflation during 1973 and 1974 does not depend in the main on the controls program. What it does depend on, fundamentally, is the economic pressure of demand upon supply.

Most of our recent inflation has been of this nature. Demand for foodstuffs, especially red meats, has climbed sharply because of rising incomes, but supply did not increase. Under

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those conditions, a temporary upsurge in food prices was inevitable. The same pattern exists in lumber (the homebuilding boom), petroleum (the fuel oil shortage) and nonferrous metals (the vigorous business expansion here and abroad).

These three industrial sectors together with food account for the dominant part of the rise in wholesale prices over the past couple of months. This fact points up the need to pursue economic policies that get at the fundamentals, and not just the symptoms, of the inflation problem:

-- expand food supplies by increasing cropland acreage, selling government-owned stocks of grains, suspending meat import quotas, and making other major changes in farm policies;

-- increase the available supply of nonferrous metals and other commodities by selling excess inventories from the government stockpiles;

-- increase gasoline and fuel oil supplies by suspending oil import quotas;

-- maintain a tight rein on the budget to keep the economy from running away with itself. Of all the policy steps taken, this is the most important. We must not repeat the mistakes of 1965-68 when, at a time of full employment, massive budget deficits in combination with an excessively easy monetary policy created a runaway inflation. To prevent that unhappy pattern from taking place again, President Nixon is determined to resist the many pressures for increased Federal spending and to hold the budget to noninflationary levels.

Holding down the rate of inflation is not a simple matter. No safe or sure or painless or instantaneous remedy is available. But we can be confident that the policies now in place will prevent the present temporary spurt in prices from becoming an endless inflationary spiral.

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FOR RELEASE UPON DELIVERY

TESTIMONY BY THE HONORABLE WILLIAM E. SIMON
DEPUTY SECRETARY OF THE TREASURY BEFORE
THE HOUSE FOREIGN AFFAIRS SUBCOMMITTEE
ON NEAR EASTERN AFFAIRS
TUESDAY, APRIL 10, 1973 AT 10:00 A.M.

Mr. Chairman and Members of the Committee:

Let me begin by explaining the Treasury's role in our nation's vital petroleum program.

On February 7, the President signed an Executive Order which assigned responsibility for the Oil Policy Committee (OPC) to the Treasury Department. I was named Chairman. The Oil Policy Committee will continue to function as in the past. The specific 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.

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2. After consultation with the Oil Policy Committee which consists of the heads of State, Treasury, Defense, Justice, Interior, Commerce and the Council of Economic Advisers, 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.

The Oil Policy Committee considers 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 important to mention briefly 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 responsibility for coordination within the government. Implementation of the program will remain within Interior. 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.

The mission of the Oil Policy Committee is to create a vigorous domestic industry. This is a difficult task, particularly now that we are faced with serious shortages of crude oil and refinery products. Some of these shortages are world wide. We must look abroad, particularly to the Middle East, for the oil we need and to compete in increasingly tight markets. I plan to discuss this situation today.

Under Secretary William Casey of the State Department will appear before you next week to discuss such subjects as U.S. oil company negotiations with the Organization of Petroleum Exporting Countries (OPEC) and other matters dealing with our foreign policy relations in the Middle East. I will concentrate instead on the economic and financial implications of U.S. reliance on Middle East oil.

History of Oil Import Program

The Oil Import Program began on a voluntary basis in 1955 when substantial amounts of crude oil first began to be produced in the Middle East.

The voluntary program failed and, in 1959, the Mandatory Oil Import Program (MOIP) took its place. Under the Mandatory Oil Import Program, the Government was given the power to set import quotas for oil in an effort to assure that domestic production and, because of this, U.S. security was not jeopardized. The circumstances which gave rise to this oil import program may be summarized as follows: 1) Eastern Hemisphere, especially the Middle East had an abundant and exportable surplus of oil; 2) it was the source of the world's cheapest crude; 3) the region was marked by political turmoil; and 4) as the principal economic resource of the region, oil was likely to be intimately involved with the politics of the exporting countries.

It was clear that, without some control on imports, U.S. integrated oil companies would exploit cheaper foreign reserves of crude oil despite the risk of disruption to supply. Excessive imports of cheap foreign oil, in turn, could jeopardize the viability of our own domestic oil industry. Therefore, quotas were established and imports

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limited to 9 percent of U.S. consumption. Under this system, imports are determined annually by the Government. They are distributed to U.S. oil companies using a statistical formula based largely on their need for petroleum.

It is important to realize, however, that the factors which gave rise to the current policy have changed. Foreign crude oil, particularly low-sulphur crude oil, is not especially abundant. Nor is it cheap. Moreover, for the rest of this decade we will need foreign crude oil from wherever we can obtain it including the Middle East.

Since 1970, U.S. demand has exceeded U.S. production. State prorationing has all but been suspended, thereby permitting production at the wellhead at maximum efficient rates. Those refineries that can find sufficient crude are running at a near maximum rate of capacity. However, some refineries, particularly the non-integrated independents and cooperatives, have been unable to find enough crude to operate at full capacity. To meet increasing U.S. demand, it has been necessary to increase our imports substantially, particularly imports from the Middle East. Between 1969 and 1972, total oil imports rose by 52 percent to 4,685,000 barrels per day, while imports from the Middle East increased by 83 percent to 573,000 barrels per day.

In light of the current situation, we are reviewing the mandatory Oil Import Program as it exists today.

It is our concern -- over the short-term to increase the supply of petroleum in the United States to avert a gasoline shortage this summer and a fuel oil crisis next winter -- and over the long-term

-- to develop a strong domestic oil production and refining industry and to assure a stable supply of petroleum adequate to meet our requirements.

U.S. Reliance on Oil Imports

It's not too difficult to project oil import requirements for 1973 or even 1974. But it's much more difficult to project when we look down the road toward 1980. The level of U.S. oil imports will depend upon many factors.

To begin, demand is climbing sharply. Our need for oil goes up each year as our economy and population expand. Most sources agree that U.S. energy consumption will grow at 4 to 4 1/2 percent per year. Presently, oil accounts for 44 percent of total U.S. energy consumption. The other significant contributors to meeting our energy needs are natural gas at 33 percent; coal at 18 percent; hydro electric power at 4 percent; and nuclear power at less than one percent.

The production of gas, our cleanest fuel, has not kept pace with demand. Unduly low gas prices imposed on the interstate market and sluggishness in leasing offshore areas have provided little incentives for producers to explore for new sources or to drill new wells. Low prices have also encouraged inefficient use of gas. About 70 percent of our gas output is consumed by industry. Some of these industrial users could switch to other, more plentiful fuels.

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Coal is one of these fuels. However, its use by its principal customer, the utilities, has been declining because the most readily assessible deposits of coal contain an amount of sulphur that is higher than that permitted by the Clean Air Act of 1970. We can reverse this decline by adopting better techniques for using coal. We also must achieve compatibility between our energy needs and environmental standards.

In addition, we hope to increase the amount of electric power generated by nuclear reactors and, by 1980, energy from this source should grow ten-fold.

All this means that, without changes in policy, most of our increased energy demands are going to have to be satisfied, in the near term, by oil. Domestic demand for oil will increase from 15.1 million barrels a day in 1971 to 18 million in 1973 to 21 million in 1975 to 25 million in 1980 and to upwards of 30 million barrels a day by 1985. Where will it come from?

Unfortunately, most of this increase will not be provided by the U.S. petroleum industry. For a combination of reasons, the rate of exploration and drilling in the United States has been declining for some time, and will not increase again unless adequate incentives are provided. The plain fact is that, today, an American oil company can and is obtaining a greater return on its dollar by investing abroad than by investing in the United States.

Relationship of Oil Imports to the U.S. Balance of Trade

The cost of importing oil will continue to increase. However, several factors will help to offset the dollar outflow. American oil companies will continue to own or market much of the free world's oil production. Some of their profits from foreign investments will be repatriated.

Canada, Venezuela, Iran, Algeria, Libya, and Indonesia have significant import needs and will undoubtedly use most of their oil revenues to purchase goods from the U.S. or third countries. The Persian Gulf States of Saudi Arabia, Kuwait, Abu Dhabi and Qatar, however, are not expected to increase their imports as rapidly as their exports. The Department of Commerce estimates that the outflow of dollars to pay for oil imports will generate U.S. exports worth some $8.2 billion in 1980.

The Department of Commerce also estimates that, in 1980, about $5.9 billion will return to the United States in the form of repatriated profits. This, plus the $8.2 billion in exports, will partially offset the $17 billion addition to foreign exchange outlays required by increased imports of foreign oil in 1980.

Nevertheless, these factors cannot completely offset the dollar outflow from vastly increased imports. Prices of foreign crude oil have gone up considerably since the

1970 agreements between the producing countries and the oil companies, and we can expect that they will continue to rise as U.S. dependence on foreign oil increases.

The overall impact on the balance of trade of trade of relying on imported oil will be still greater. The size of this impact will also depend upon how much U.S. capital will flow into overseas oil exploration, development, and refinery construction. The Chase Manhattan Bank estimates that capital and exploration expenditures overseas by the world petroleum industry in the 15 years from 1970 and 1985 will be about $360 billion dollars. To the extent that much of this investment is made by the United States, it would have a major bearing on what happens to the U.S. foreign exchange position.

OPEC: Greater Revenue, Greater Control

Since its inception in 1960, the OPEC has achieved significant gains in negotiations with international oil companies. Supply disruptions since 1967, such as the Suez Canal closure, the Tapline rupture, and curtailments in Libyan production, as well as the vigorous negotiating stance of OPEC, have brought increases in posted oil prices, new formulas for calculating royalty payments and taxes, and, most recently, agreements on participation in ownership. OPEC has also forced changes in the price of crude oil to reflect devaluation of the dollar. These actions by OPEC's members will bring considerable increases in revenue as well as control of the local assets of oil companies. Conversely, these same events have brought problems to the oil companies and concern to the consuming nations.

The Teheran and Tripoli Agreements set forth a four-step increase in posted prices through 1975. This increase varies by type and source of crude, and will raise oil company payments to the Persian Gulf nations by $1.50 per barrel or 80 percent over 1969 levels. To place these payments in historic perspective, let me point out that there was virtually no increase in per-barrel payments in the 1950s and only a 12¢ per-barrel increase in the 60s.

I might add that there has been a rise in the posted price and, hence, the tax paid per barrel as a result of the devaluation of the dollar. The resulting increase in the cost to the U.S. consumer is governed by a formula agreed to by the Western oil companies and the producer nations at Geneva in January 1972. It provides that posted prices will be adjusted every time the U.S. exchange rate differs from an index of nine major currencies by more than 2 percent. Posted prices rose by 8.55 percent in February 1972 and are expected to rise by another 5.8 percent this month. Negotiations on the 5.8 percent rise are scheduled for April 12 between OPEC and the representatives of the oil companies.

OPEC's most recent demands have concerned the extent to which host countries would "participate" in oil production. Some agreements call for the transfer of a majority share to host governments, while others, such as that with Iran, call

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for total ownership by the producing country and future cancellation of concessions. In most cases, the oil companies have agreed to buy back a country's share at prices lower than could be realized from third-party purchasers. Compensatory payments to the companies are to be made in crude oil.

Oil producing countries can be expected to press for further increases. Their spokesmen claim that they have not been adequately compensated for their oil given the prices the oil companies realize in the market place.

Impact on the International Monetary System

In the case of most oil-producing countries, income from oil is likely to lead to an equivalent expansion of imports. However, a few of the oil producing states, particularly those located on the Persian Gulf, have small populations and only limited development potential, making it highly unlikely that they could increase expenditures in consumption and investment as fast as their oil revenues. These countries will spend part of their revenues on aid to other countries. They may invest part in Europe and the United States. And, what has given some cause for concern, they may hold much of their earnings as international reserves.

The major oil producers on the Arabian peninsula -- Saudi Arabia, Kuwait, Abu Dhabi, and Qatar -- had an estimated income of about $5 billion in 1972. This is likely to increase to $10 billion by 1975, and up to $20 to $30 billion by 1980. These countries could absorb about \$10 billion in imports annually by 1980, leaving \$10 to \$20 billion to be allocated to foreign aid, foreign investments, and foreign exchange reserves. If annual excess earnings were added to reserves, the holdings of these countries would rise to \$40 to \$70 billion by 1980. This is a very substantial pool of dollars that obviously could play a most important role in the international monetary system.

Fortunately the oil producing countries have been participating fully in discussions on international monetary reform. It is to be expected that, in determining the use of their oil income, they will primarily be motivated by the normal investment opportunities that pay the highest return. In accordance with that desire the United States should serve as an excellent investment area.

Some producing countries have already expressed their willingness to invest in the U.S. oil industry. This, in turn, would benefit their own economies. Other possibilities might include their participating in large investment projects elsewhere, such as the exploitation of the Siberian oil and gas fields. Since the ability of most Middle Eastern governments to develop and provide adequate supervision for large-scale investment projects is limited, assistance by the U.S. and other governments may be necessary in getting the oil producers to commit their funds to these projects.

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National Security and Oil Imports

The Middle East has been the predominant supplier of oil to Europe and Japan for some time, and is rapidly becoming a major source of U.S. petroleum requirements. The security of these supplies is of paramount concern to the importing nations.

The bulk of the world's oil reserves are in the Middle East. At present, this area has 67 percent of the world's known reserves.

Three countries -- Saudia Arabia, Iraq, and Iran -- possess oil reserves sufficient to allow substantial increases in production above current levels. But Iran has indicated that its output of crude oil will not expand much beyond a maximum of 8 to 9 million barrels per day.

Saudia Arabia holds the largest reserves of oil, about 140 billion barrels or 24 percent of the world's proven reserves. Saudi reserves are equivalent to 4 times U.S. reserves, including the North Slope's 10 billion barrels. Thus, Saudi Arabia will play a key role in the balance between world oil supply and demand.

The Middle East must greatly expand its production from its reserves to meet the anticipated growth in demand for oil in the United States, Western Europe, and Japan. While the exporting nations may choose different strategies in exploiting their remaining reserves so as to maximize their total flow of revenues, it is reasonable to expect that oil production in the Middle East and North Africa will increase from 22 million barrels per day in 1970 to about 40 to 50 million barrels in 1980. Saudi Arabia will supply about 75 percent of the expected growth in Middle Eastern oil production through 1980 and Iran another 20 percent. On a global basis, the Middle East will be producing 50 percent of the world's oil and Saudi Arabia and Iran will, together, supply half of this oil by 1980. In other words, the world's oil economy has changed drastically from when the oil import program was first initiated.

Oil imports from the Middle East will be supplemented by imports of natural gas, shipped to the United States either as liquified natural gas (LNG) or methanol. Although an LNG contract was, after long delay, consummated last week with Algeria for delivery in 1977, it is unlikely that arrangements could be made with Persian Gulf governments to deliver gas to the United States before 1980.

Greater reliance on Middle East oil could represent a security problem for the United States for several reasons.

First, despite their ties to the United States, all producing countries have shown an increasing tendency to demand more for their oil. Some have actually threatened withholding supplies to assure that their demands are met.

Second, the Middle East is not trouble-free. War has broken out several times during the past three decades, and supplies from this area have suffered frequent interruptions.

Third, some governments might be tempted to threaten long-standing agreements with the oil companies and use their oil resources as a political weapon.

The relationships between oil-producing nations and the international oil companies operating within their borders are changing rapidly. Most OPEC members are seeking participation in oil production within their borders. Agreements have been signed which provide that host governments will obtain a 25 percent ownership in international oil companies, beginning last January, and eventually reaching 51 percent by 1982.

Participation in exploration and development will give producing countries their own oil which they may use as they wish. Revenues from this oil, together with the taxes from non-participation oil, will yield extremely high foreign exchange earnings for several producing nations. In 1980, alone, this oil-drived revenue to the Middle East could well total as high as $60 billion per year. Hopefully, these sums will find a use within the Middle East or will be invested abroad, perhaps in the United States. If not, we face the prospect that some producers will find other, less desirable uses for their revenues or may decide that it is in their best interests to keep their oil in the ground.

Under these circumstances, how best can our security interests in the Middle East be served? The new strength of the oil producing nations is well known and it has been used to advantage in recent months. It will be difficult to coordinate the energy policies of a large group of consuming nations, and to secure a joint approach to common supply problems. We are convinced, however, that the consuming countries should begin to explore this approach seriously.

What Do We Do?

What actions can the United States take at home to protect against a cut-off of the supply of crude oil? In the last few years, we have investigated various ways of responding to interruption in foreign supplies. We have, for example, begun to consider storage and shut-in production of oil and coal reserves. We also have some dual capability in our power plants. We can switch some of these plants back to coal if, in the meantime, we have not put our coal industry out of business. If disruption of imports should be serious enough to threaten U.S. security, the Government can evoke the power to set priorities and allocate supplies under Title I of the Defense Production Act of 1950. But, let us resolve that it shall not come to this.

As we look ahead, the following improvements must be made:

First, we must produce more oil here at home. We cannot be content with declining levels of production. We must provide the incentives to increase U.S. production.

Second, the Mandatory Oil Import Program, as presently constituted, has become obsolete. We must end the stop-and-go operations of the program that have created uncertainty in the industry and deterred needed investment in drilling and new refinery construction. Our mission, as previously stated, is to have a vigorous domestic petroleum industry. We must encourage exploration and production as well as new refinery construction and expansion.

In the end, industry, consumers and the national interest should all benefit.

Thank you.

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. April 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 January 11, 1973, and the other series to be dated April 12, 1973, which were invited on April 3, 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 July 12, 1973		:	182-day Treasury bills maturing October 11, 1973	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	98.452	6.124%	:	96.854	6.223%
Low	98.430	6.211%	:	96.816	6.298%
Average	98.436	6.187% 1/	:	96.831	6.268% 1/

51% of the amount of 91-day bills bid for at the low price was accepted
84% 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	$ 59,000,000	$ 42,540,000	:	$ 20,325,000	$ 5,325,000
New York	2,919,980,000	1,813,910,000	:	2,602,085,000	1,513,120,000
Philadelphia	39,820,000	17,910,000	:	8,240,000	8,240,000
Cleveland	26,770,000	24,255,000	:	16,260,000	15,960,000
Richmond	23,150,000	15,580,000	:	24,440,000	19,550,000
Atlanta	23,965,000	18,185,000	:	29,915,000	15,905,000
Chicago	259,730,000	86,260,000	:	217,165,000	57,275,000
St. Louis	69,875,000	22,175,000	:	71,700,000	27,820,000
Minneapolis	15,995,000	4,945,000	:	15,550,000	8,355,000
Kansas City	34,580,000	14,800,000	:	29,710,000	15,150,000
Dallas	42,280,000	12,325,000	:	37,055,000	9,490,000
San Francisco	583,605,000	327,215,000	:	358,390,000	103,955,000
TOTALS	$4,098,750,000	$2,400,100,000 a/		$ 3,430,835,000	$1,800,145,000 b/

a/ Includes $231,655,000 noncompetitive tenders accepted at the average price of 98.436
b/ Includes $160,965,000 noncompetitive tenders accepted at the average price of 96.831
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 6.37% for the 91-day bills, and 6.56% for the 182-day bills.

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

April 10, 1973

SUMMARY OF TREASURY RECOMMENDATIONS ON CHANGES IN THE TAXATION OF FOREIGN SOURCE INCOME

The Treasury recommends the following modifications in the rules relating to the taxation of foreign income:

(1) United States shareholders would be taxed on future undistributed earnings of a controlled foreign corporation engaged in manufacturing or processing activities where the corporation makes new or additional investment and is allowed a foreign "tax holiday" or similar tax incentive with respect to such investment.

(2) United States shareholders would be taxed on the future undistributed earnings of a controlled foreign corporation where the corporation makes new or additional foreign investment in the manufacturing or processing of products exported to the United States market, if the income from such investment is subject to foreign corporate tax significantly lower than in the United States.

(3) Where a United States taxpayer has deducted foreign losses against United States income, such losses would be taken into account to reduce the amount of foreign tax credit claimed by such taxpayer on foreign earnings in later years.

EXPLANATION OF TREASURY RECOMMENDATIONS ON CHANGES IN THE TAXATION OF FOREIGN SOURCE INCOME

Table of Contents:

I. Tax Holidays

II. Controlled Foreign Corporations Exporting to the United States

III. Recovery of Foreign Losses

I.

Explanation of Tax Holiday Proposal

1. Background.

Under existing law, the income of foreign corporations operating abroad is generally not subject to current United States taxation, regardless of whether the stockholders of the corporation are U.S. or foreign. The Subpart F provisions of the Internal Revenue Code, adopted by the Congress in 1962, represent an exception to this general rule in the case of certain tax haven activities conducted by corporations controlled by U.S. stockholders. The great bulk of United States investment abroad in manufacturing and processing facilities is located in countries which impose substantial corporate income taxes. Investment decisions in such cases are made on the basis of general business considerations in which tax burdens are a largely neutral factor. However, there has been an increasing tendency by both developed and developing countries to deviate from their normal corporate tax structures by offering tax related incentives, such as holidays from taxation, to attract foreign investment. This has led in some significant cases to United States companies making investments in manufacturing facilities abroad in order to obtain special tax benefits. These tax incentives are an

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unwarranted and undesirable use of income tax structures and create a distortion in the application of our existing tax rules with respect to foreign source income.

2. Basic Proposal.

United States shareholders would be taxed on future undistributed earnings of a controlled foreign corporation engaged in manufacturing or processing activities where the corporation makes new or additional investment and is allowed a foreign "tax holiday" or similar tax incentive with respect to such investment.

3. Detailed Description.

A. Taxation of United States Shareholders. It is proposed that a new section 951(a) (1) (C) be added to the Internal Revenue Code to provide that the United States shareholders, as defined in section 951(b), of a controlled foreign corporation engaged in manufacturing or processing abroad be taxed currently on their pro rata share of the earnings of such corporation if it is allowed a foreign tax investment incentive (i.e., the earnings of such a corporation would be deemed to be distributed currently to its shareholders).

These provisions would operate independently of the exceptions to Subpart F. Once the income of a foreign corporation is subject to current taxation, its income would continue to be taxed currently thereafter, whether to the same shareholders or to new shareholders and whether or not the foreign tax incentive continues to apply.

B. Manufacturing and Processing. A new section would be added to the Code to define a corporation engaged in manufacturing and processing abroad. The new rules would apply to a controlled foreign corporation engaged in manufacturing or processing (including refining) outside of the United States, provided that more than 10 percent of the unadjusted basis of the corporation's assets are used in manufacturing and processing operations.

C. Existing Foreign Investment. In the case of an existing facility, current taxation would not occur unless or until the investment made after the effective date and during a period when the applicable foreign tax incentives are still in effect exceeds 20 percent of the unadjusted basis of existing manufacturing assets. It would make no difference whether the investment was funded from new capital or re-invested earnings. This rule provides a margin for normal modernization and replacement of existing facilities.

D. Foreign Branches of Controlled Foreign Corporations. For purposes of applying these rules, a branch of a foreign corporation located outside of the country of incorporation will be treated as a separate corporation.

4. Foreign Tax Incentive.

The Treasury Department would be granted authority to determine which foreign practices constitute tax investment incentives. This authority could be exercised by determinations with respect to general categories of incentives, such as an exemption or reduction of tax for a period of time or for cash grants that are not required to be taken into account as taxable income. The authority could also be exercised by determinations with respect to specific incentives in specific countries, including local and regional incentives. Incentives would include those provided by law or regulations or individually negotiated arrangements. The fact that there is a generally low rate of tax in a country would not be considered by itself a tax incentive. The Treasury would have authority to exempt tax benefits determined not to be significant in amount or effect and to make determinations prospective in appropriate cases, and would be prepared to rule on the status of tax arrangements under which foreign investments are made.

5. Treaty Exceptions.

The legislation would preserve discretion in the Executive, subject to Senate approval, to enter into bilateral income tax treaties which would make these rules inapplicable to specific incentives, in order to promote investment in appropriate situations and with appropriate safeguards.

6. Limitation on Tax Credit.

Income treated as distributed under this provision would not be entitled to be taken into account for the over-all foreign tax credit computation, but would be separately computated.

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II.

Explanation of Proposal With Respect to Controlled Foreign Corporations Exporting to the United States

1. Background.

In addition to the problem of foreign "tax holidays" and similar tax incentives designed to induce United States investment abroad, there are certain cases where United States companies make foreign investments with the specific purpose of producing for the United States market. Such "runaway plants" are often established to take advantage of significantly lower foreign corporate tax rates.

2. Basic Proposal.

In addition to taxing shareholders on the future undistributed earnings of controlled foreign corporations taking advantage of a tax holiday or other foreign tax incentive, United States shareholders would be taxed on the future undistributed earnings of a controlled foreign corporation where the corporation makes new or additional foreign investment in the manufacturing or processing of products exported to the United States market, if the income from such investment is subject to foreign corporate tax significantly lower than in the United States.

3. Detailed Description.

A. Taxation of United States Shareholders.

New section 951(a)(1)(C) of the Code would provide that the United States shareholders, as defined in section 951(b), of a controlled foreign corporation engaged in manufacturing or processing abroad be taxed currently on their pro rata share of the earnings of such corporation, even though the corporation is not taking or has not taken advantage of a foreign tax investment incentive, if:

(1) 25 percent or more of the corporation's gross receipts are from the manufacture and sale of products destined for the United States market, and

(2) The effective rate of tax on the income of the controlled foreign corporation is less than 80 percent of the United States tax rate.

B. Existing Investment.

This provision would not apply unless or until investment made after the effective date of this proposal exceeds 20 percent of the unadjusted basis of existing manufacturing and processing assets.

C. Foreign Branches of Controlled Foreign Corporations.

For purposes of applying these rules, a branch of a foreign corporation located outside of the country of incorporation will be treated as a separate corporation.

D. Limitation on Tax Credit.

Income treated as distributed under this provision would not be entitled to be taken into account for the over-all foreign tax credit computation, but would be separately computated.

E. Exceptions.

The President would be given authority to exempt companies in particular industries if he determines that it is in the public interest to do so. The legislation would preserve discretion in the Executive to enter into income tax treaties, subject to Senate approval, which would make these rules inapplicable in specific situations, in order to promote investment in appropriate situations and with appropriate safeguards.

III.

Explanation of Recovery of Foreign Losses Proposal

1. Background.

Under existing law, United States taxpayers may deduct losses from foreign transactions for purposes of computing their taxable income. Thus, the foreign losses reduce the U.S. tax on U.S. source income. In addition, a United States taxpayer is allowed to credit against his United States tax on foreign income an amount equal to the U.S. tax imposed on the foreign income with respect to which the foreign taxes were paid. In the alternative, the foreign taxes may be deducted. If the taxpayer chooses to credit his foreign taxes the amount creditable is limited to the U.S. tax imposed on the foreign income with respect to which the foreign taxes were paid. The limitation may be computed either separately for each country (the "per-country" limitation), or on an over-all basis (the "over-all" limitation) under which all foreign income taxes and foreign source income are aggregated.

A taxpayer who is on the per-country limitation at the time a loss from a foreign transaction is incurred does not have to reduce the limitation for foreign taxes paid on foreign income from other countries as he would if he were on the over-all limitation. Thus, he gets the full credit for other foreign taxes paid, plus the full deduction for the foreign losses. When the foreign operations in the country of loss become profitable, taxes are often paid to such country without taking into account the prior losses. The tax credit allowed by the United States for such taxes may effectively eliminate any United States tax on the earned income during the profitable period. The same result occurs in the case of a taxpayer on the over-all limitation who has an over-all loss on his foreign operations. In such cases the United States bears the burden of the taxpayer's deducting large losses which greatly reduce U.S. taxes, while the foreign country collects the taxes on the operation once it becomes profitable with the U.S. tax eliminated by the foreign tax credit.

It is also presently possible for taxpayers to incur large start-up losses in the early years of an operation in a foreign country, and then to incorporate the operation once it becomes profitable. In this case no U.S. tax would be paid, even if the foreign country takes the prior losses into account, unless the earnings were repatriated.

2. Basic Proposal.

Modify the limitations on the foreign tax credit provided by section 904 to provide a special limitation for taxes of a foreign country which are excessive because the foreign country has not permitted losses of the enterprise to be offset against subsequent profits, and to provide recapture of losses where the legal form or ownership of the enterprise changes.

3. Detailed Description.

A. It is proposed that a new subparagraph (3) be added to section 904(a) of the Code to provide that if a taxpayer sustained a loss (whether ordinary or capital) in a foreign country or possession of the United States in a taxable year, then to the extent that the loss was not taken into account in such year for purposes of computing the foreign tax credit limitations provided by section 904(a)(1) or (2), then for purposes of computing the limitation on the foreign tax credit such loss would be taken into account in succeeding taxable years as a reduction of the taxpayer's taxable income from sources within such country or possession. The amount of the reduction in any one year is not to exceed 25 percent of the taxpayer's income from such country or possession computed without regard to such reduction. The amount of the losses not taken into account shall be carried forward in the ten succeeding years until exhausted. Such a reduction will not be made, however, to the extent that the loss has been allowed by the foreign country where the loss was incurred and has thereby reduced the amount of foreign tax paid. Thus, if a taxpayer has elected the per-country limitation, and sustains a loss for 1973 in country X, the taxable income from sources within such country for 1974, for purposes of computing the limitation on the amount of the foreign tax credit that may be taken, is to be reduced by the amount of the 1973 loss but only to the extent that the adjustment does not exceed 25 percent of the corporation's taxable income from X for 1974. Any excess would be carried over to subsequent years. Likewise, a taxpayer who has elected the over-all limitation and sustains an over-all loss on his foreign operations in 1973 would reduce his taxable income from sources without the U.S. in 1974 by the amount of that loss subject to the 25 percent of taxable income limitation. Detailed rules relating to the allocations of losses among years, countries and classes of income would be provided in Treasury regulations.

B. In cases in which material income producing capital assets used in the trade or business which gave rise to the losses are disposed of before the prior losses have been fully taken into account, including cases in which the enterprise is transferred to a corporation before the losses have been fully taken into account, the losses not previously taken into account would be included in the taxpayer's gross income in the year of disposition of the property.

C. Section 904(d) will be amended to provide that taxes not allowed as a credit by reason of the application of new section 904(a)(3) may not be carried back or carried forward.

Department of the TREASURY NEWS
OFFICE OF REVENUE SHARING
WASHINGTON, D.C. 20220 TELEPHONE WO4-8711

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New Telephone No. 634-5191

FOR IMMEDIATE RELEASE April 10, 1973

REVISED REVENUE SHARING REGULATIONS ARE PUBLISHED IN FEDERAL REGISTER

Revised regulations for the administration of general revenue sharing were announced today in the Federal Register by Graham W. Watt, Director of the Treasury Department's Office of Revenue Sharing.

These regulations replace interim regulations which governed the payments made under President Nixon's new program to more than 38,000 States and localities for 1972. The regulations are effective immediately and apply to general revenue sharing payments for the first quarter of 1973, totalling nearly $1.5 billion, distributed on April 6.

First published in proposed form on February 22, 1973, the Office of Revenue Sharing has expanded and revised several sections of the proposed regulations to reflect comment received in writing and in a public hearing held March 26 in Washington.

The section prohibiting the discriminatory use of funds has been changed. In instances of noncompliance with the civil rights requirement of the State and Local Fiscal

Assistance Act of 1972 by a recipient government, the Secretary of the Treasury, in addition to requiring repayment (or forfeiture) of any money spent in a discriminatory activity, is now empowered to withhold all entitlement payments from a government found in violation until compliance has been achieved.

In addition, the scope of the programs and activities funded with revenue sharing moneys falling under the non-discrimination provisions has been expanded. The definition now includes programs undertaken by units of government and contractors to which entitlement funds have been transferred by recipient governments.

Also, the Office of Revenue Sharing has clarified the accounting requirements for this program. The system which recipient governments use to account for the distribution of entitlement funds must be detailed to a level which adequately indicates that a recipient government has not violated the restrictions and prohibitions of the Act.

Too, the section dealing with reporting and publicity of the use of funds has been broadened to require notification to bilingual and minority news media as well as the general news media regarding publication reports of planned and actual distribution of funds.

Finally, the administrative ruling of the Office of Revenue Sharing which details the limitations on the retirement of indebtedness with revenue sharing funds has been incorporated into the priority expenditures section of the regulations.

These regulations apply to general revenue sharing funds paid for all entitlement periods beginning on or after January 1, 1973, Mr. Watt stated.

"The preparation of these regulations reflect the determination of the Treasury Department to secure the greatest input possible from those groups and individuals affected by the program and its administration. We want to continue our 'hands off' style of administration, requiring of the States and local governments only that which the law itself makes necessary," Watt noted. "All comments, written and oral, have been fully considered in the preparation of our final regulations."

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

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FOR IMMEDIATE RELEASE April 10, 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 April 19, 1973, in the amount of $4,201,450,000 as follows:

91-day bills (to maturity date) to be issued April 19, 1973, in the amount of $2,400,000,000, or thereabouts, representing an additional amount of bills dated January 18, 1973, and to mature July 19, 1973 (CUSIP No. 912793 RL2), originally issued in the amount of $ 1,902,100,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,800,000,000, or thereabouts, to be dated April 19, 1973, and to mature October 18, 1973 (CUSIP No. 912793 RZ1).

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 April 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

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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 April 19, 1973, in cash or other immediately available funds or in a like face amount of Treasury bills maturing April 19, 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.

UNITED STATES SAVINGS BONDS ISSUED AND REDEEMED THROUGH March 31, 1973

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(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	4,999	5	.10
Series F and G-1941 thru 1952	29,521	29,497	23	.08
Series J and K-1952 thru 1957	3,754	3,746	8	.21
UNMATURED				
Series E 3/ :				
1941	1,920	1,733	187	9.74
1942	8,476	7,639	838	9.87
1943	13,624	12,303	1,321	9.70
1944	15,900	14,290	1,610	10.13
1945	12,516	11,106	1,411	11.27
1946	5,708	4,908	800	14.02
1947	5,440	4,546	894	16.43
1948	5,640	4,635	1,004	17.80
1949	5,595	4,522	1,074	19.20
1950	4,910	3,916	994	20.24
1951	4,247	3,386	861	20.27
1952	4,554	3,527	928	20.38
1953	5,098	3,957	1,141	22.38
1954	5,197	3,981	1,216	23.40
1955	5,417	4,110	1,308	24.15
1956	5,237	3,940	1,297	24.77
1957	4,941	3,668	1,273	25.76
1958	4,832	3,493	1,339	27.71
1959	4,538	3,241	1,298	28.60
1960	4,561	3,166	1,395	30.59
1961	4,650	3,106	1,544	33.20
1962	4,523	2,935	1,589	35.13
1963	5,080	3,095	1,985	39.07
1964	4,952	3,024	1,928	38.93
1965	4,832	2,916	1,916	39.65
1966	5,207	3,016	2,192	42.10
1967	5,146	2,959	2,186	42.48
1968	4,887	2,759	2,128	43.54
1969	4,595	2,474	2,121	46.16
1970	4,808	2,267	2,540	52.83
1971	5,529	2,122	3,407	61.62
1972	6,061	1,449	4,613	76.11
1973	601	-	601	100.00
Unclassified	380	392	13	-
Total Series E	189,505	138,580	50,925	26.87
Series H (1952 thru May, 1959) 3/	5,485	3,950	1,534	27.97
H (June, 1959 thru 1973)	8,956	2,945	6,012	67.13
Total Series H	14,441	6,895	7,546	52.25
Total Series E and H	203,946	145,475	58,471	28.67
All Series: Total matured	38,278	38,242	36	.09
All Series: Total unmatured	203,946	145,475	58,471	28.67
All Series: Grand Total	242,224	183,717	58,507	24.15

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. Jan. 1973) – Dept. of the Treasury – Bureau of the Public Debt

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FOR IMMEDIATE RELEASE April 11, 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 of 1921, as amended.

In the first two cases antidumping investigations are being initiated, in the third case a finding of dumping is being issued, and in the fourth case there is a final negative determination.

Notice of these actions will appear in the Federal Register of April 12, 1973.

In the first case Assistant Secretary Morgan announced the initiation of an antidumping investigation on imports of racing plates (aluminum horseshoes) from Canada. These horseshoes are lightweight and are used on racehorses, polo, jumping, hunting, and other performance horses. 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 racing plates from Canada were valued at approximately $100,000.

In the second case the Department announced the initiation of an antidumping investigation on imports of upholstery spring wire of coiling and knotting quality from Japan. This wire is processed with an automatic coiling and knotting machine to make springs for various types of upholstered products such as mattresses, automobile seats, and cushions. 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 this upholstery spring wire from Japan were valued at approximately $6.9 million.

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In the third case the Treasury has issued a dumping finding with respect to roller chain, other than bicycle, from Japan. On December 1, 1972, the Treasury Department advised the Tariff Commission that this roller chain was being sold at less than fair value within the meaning of the Antidumping Act. On March 1, 1973, the Tariff Commission determined there was injury to a U.S. industry. In such situations the dumping finding automatically follows as the final administrative requirement in antidumping investigations. Dumping duties will be assessed on imports of this roller chain which have not been appraised and on which dumping margins are found. During calendar year 1972 imports of roller chain, other than bicycle, were valued at approximately $14 million.

In the fourth case Treasury announced that a final determination has been made that slide fasteners and parts of slide fasteners from Japan are not being, nor likely to be, sold at less than fair value. Slide fasteners and parts thereof are commonly known as zippers and are primarily used in wearing apparel. A tentative negative determination was published in the Federal Register on February 1, 1973. 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 calendar year 1972 imports of these slide fasteners and parts thereof from Japan were valued at approximately $13 million.

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FOR RELEASE UPON DELIVERY
MONDAY, APRIL 16, 1973, 1 P.M., CST

EXCERPTS FROM REMARKS BY JAY N. WOODWORTH
DEPUTY TO THE ASSISTANT SECRETARY OF THE TREASURY
FOR ECONOMIC POLICY
AT THE
1973 OMAHA AREA KICK-OFF OF THE
U. S. SAVINGS BOND CAMPAIGN
OMAHA, NEBRASKA
APRIL 16, 1973

Economic activity is clearly continuing its robust expansion. Employment, output, sales, personal income, and profits are all on a very strong uptrend, and unemployment is declining. In addition, all available evidence points to further rapid gains in economic activity in the months ahead.

While this cheery business performance would normally dominate newspaper headlines, the good news has been pushed aside by the bad news of inflation. The recent upsurge in prices has been concentrated in the farm and food sector, but prices of some industrial commodities have also risen sharply in the past two months. It is possible that industrial prices have risen even more rapidly in the past several weeks, due to the widespread anticipation by businessmen of a renewed freeze on prices.

Public discussion of the burst of price increases -- discussion of how it happened and what should be done about it -- has focused almost exclusively on the Government's program of price and wage controls. This emphasis on the controls is worrisome, since it threatens to divert our attention from the basic causes of the situation and from the main targets of economic policy.

Price and wage controls, if they are flexible enough to reflect changing economic conditions, can make a contribution to the anti-inflation effort -- as they did in part during 1972. But what happens to inflation during 1973 and 1974 does not depend in the main on the controls program. What it does depend on, fundamentally, is the economic pressure of demand upon supply.

Most of our recent inflation has been of this nature. Demand for foodstuffs, especially red meats, has climbed sharply because of rising incomes, but supply did not increase. Under those conditions, a temporary upsurge in food prices was inevitable. The same pattern exists in lumber (due to the continued homebuilding boom), petroleum (the fuel oil shortage) and nonferrous metals (the vigorous business expansion here and abroad).

These three industrial sectors together with food account for the dominant part of the rise in wholesale prices over the past couple of months. This fact points up the need to pursue economic policies that get at the fundamentals, and not just the symptoms, of the inflation problem:

-- expand food supplies by increasing cropland acreage, selling government-owned stocks of grains, suspending meat import quotas, and making other major changes in farm policies;

-- increase the available supply of nonferrous metals and other commodities by selling excess inventories from the government stockpiles;

-- increase gasoline and fuel oil supplies by suspending oil import quotas;

-- maintain a tight rein on the budget to keep the economy from running away with itself. Of all the policy steps taken, this is the most important. We must not repeat the mistakes of 1965-68 when, at a time of full employment, massive budget deficits in combination with an excessively easy monetary policy created a runaway inflation. To prevent that unhappy pattern from taking place again, President Nixon is determined to resist the many pressures for increased Federal spending and to hold the budget to noninflationary levels.

Holding down the rate of inflation is not a simple matter. No safe or sure or painless or instantaneous remedy is available. But we can be confident that the policies now in place will prevent the present temporary spurt in prices from becoming an endless inflationary spiral.

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FOR IMMEDIATE RELEASE April 13, 1973

JERRY L. OPPENHEIMER RESIGNS AS
DEPUTY TAX LEGISLATIVE COUNSEL

Treasury Secretary George P. Shultz has accepted "with regret," the resignation of Jerry L. Oppenheimer, Deputy Tax Legislative Counsel. Mr. Oppenheimer is leaving the Treasury Department to become a partner in the law firm of Mayer, Brown & Platt and will be located in its Washington, D. C. office.

Since January 1973, Mr. Oppenheimer has been Acting Tax Legislative Counsel. Mr. Oppenheimer has been with the Treasury Department since September 1969. In 1970, he was appointed Associate Tax Legislative Counsel, and in 1972, he was appointed Deputy Tax Legislative Counsel.

Mr. Oppenheimer has acted as a principal Treasury legal advisor in the formulation of policy, legislation, and regulations on tax matters. He played a leading role in development of the Tax Reform Act of 1969, the Revenue Act of 1971, and the regulations implementing those tax laws.

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A native of Birmingham, Alabama, and a 1958 graduate of the Business School of the University of North Carolina, Mr. Oppenheimer holds an LL.B. degree from the University of Virginia Law School (1961). Prior to joining Treasury, he was with the Washington, D.C. law firm of Covington & Burling.

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April 13, 1973

JOHN M. PORGES
NOMINATED AS U.S. EXECUTIVE DIRECTOR
THE INTER AMERICAN DEVELOPMENT BANK

President Nixon today announced the nomination of John M. Porges of New York City as the U.S. Executive Director of the Inter American Development Bank for a term of three years. Mr. Porges will replace Henry J. Costanzo, who resigned December 31, 1972.

Mr. Porges has been the Vice President in charge of Latin America with Morgan Guaranty Trust Co. since 1962. He joined Morgan Guaranty's International Division in 1953 and was named Assistant Treasurer in the Latin America area in 1958. He has also served as the American Director, Banco Frances del Rio de la Plata, B.A. and as President of the Pan American Society. Mr. Porges enlisted in the U.S. Army in 1942 and served in the 44th Infantry Division in the European Theatre of Operations. He received a battlefield commission in France in 1945.

Mr. Porges, 50, attended Grinell College, Grinell, Iowa, and New York University where he received a B.A. degree. He also holds an M.A. degree from the University of Florida, Gainesville.

Mr. Porges is married to Anne Elina Berea of New York City. They have two children and presently reside in Douglas Manor, New York.

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FOR RELEASE ON DELIVERY

STATEMENT BY HOWARD L. WORTHINGTON
DEPUTY ASSISTANT SECRETARY OF THE TREASURY FOR TRADE
BEFORE THE
SUBCOMMITTEE ON FOREIGN AGRICULTURAL POLICY
SENATE AGRICULTURE AND FORESTRY COMMITTEE
MONDAY, APRIL 16, 1973
10:00 A.M.

It is indeed a pleasure for me to appear today before this committee to talk about the forthcoming international trade negotiations and how they affect agricultural trade. I will do so from the vantage point of the Treasury, and our continuing effort to deal with the foreign economic policy problems of the U.S. as a coherent whole, rather than trade problems, monetary problems, balance of payments problems and so on.

International Economic Negotiations and The Agricultural Sector

Agricultural trade has been -- and will continue increasingly to be -- a crucial factor in the state of our overall external accounts. Farm exports make a substantial positive contribution to our balance of payments and trade. Since 1960, we have had continuous surpluses in our balance of agricultural trade. Last year, in 1972, when the deficit in our overall trade account reached $6.4 billion on a census basis, agricultural products contributed a surplus of $2.9 billion. The efficiency of the American farmer,combined with our natural resources, has given the United States a comparative advantage in the agricultural field. We must therefore provide for the expansion of agricultural trade, and consider this expansion as one of our major objectives.

The need for a major improvement in our trade position is clear. We are currently in trade deficit, and as a practical matter, we see no way to achieve equilibrium in our overall balance of payments without a trade surplus.

The net flow of aid and private long-term capital to the developing nations of the world can only be financed by a net export surplus of goods and services--if we are to avoid further borrowing from the industrialized countries. We cannot expect to finance these aid and capital flows by foreign investment in the United States--we welcome such investment but there is little prospect, for some years to come, that it will be large enough to cover not only investments by our own firms in the advanced countries but also the flow of aid and capital to the developing countries. Neither can we expect to finance these flows with net income from services. Income from U.S. investments abroad has continued to rise, but most of this increase has been offset by the rise in interest payments on our debts as our payments deficits have continued to increase those debts. And our military and travel outlays are heavy. Thus, while some contribution can be expected from the service accounts, it will not be enough to make a trade surplus unnecessary. A strong improvement in our trade balance is the key to the restoration of equilibrium to our balance of payments.

Although the Trade Reform Act of 1973, which the President proposed to the Congress last week, does not request specific negotiating authority with respect to agricultural trade, nevertheless we expect to use this legislation as a vehicle for liberalization in this sector.

The strength of American agriculture depends on the continued expansion of our world markets -- especially for the major bulk commodities our farmers produce so efficiently; about 25% of our acreage produces commodities for export. While it would not be appropriate for me to go into detail at this time regarding negotiating strategy and tactics, let me assure you that our primary objective in these negotiations will be to have market forces play a greater determining role in supplying the needs of consumers for farm products in all parts of the world.

We have already taken steps to make our agriculture here at home more responsive to market forces. Under the Agricultural Act of 1970 we have reduced the government's role as the prime guide to production decisions. More recently we have freed farmers from acreage and production restrictions and export subsidies on wheat, feedgrains and other products have been suspended. In the same manner, we seek to broaden the role of market forces on the international level by reducing and removing barriers to agricultural trade. Movement in this direction can do much to help ensure an adequate supply of food and to bring about more efficient allocation of resources in the agricultural sector. Let me repeat: we are committed to international agricultural liberalization, which cannot but benefit the more efficient American farmer. Indeed, if our trading partners do not join us in this commitment to meaningful realistic negotiations in the agricultural sector, it would be difficult for the United States to proceed with multilateral trade negotiations in other sectors.

Trade negotiations can no longer be viewed independently from negotiations which are proceeding in other international economic fora. In fact, the entire international economic system -- of which the international trading system is an integral part -- is now at a watershed.

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Negotiations are already well under way in the "Committee of Twenty," under the auspices of the International Monetary Fund,to reform the monetary system to take account of the changes which have taken place in the world since the creation of the Bretton Woods system a quarter century ago.

Taken together, the trade and monetary negotiations seek to create a new international economic order which will be equal to the challenges of our time. Our efforts to improve the world's monetary system cannot meet with lasting success unless basic improvements consistent with our efforts in the monetary sphere are also achieved in the field of international trade. For example, we have sought in the monetary negotiations to develop a more effective adjustment process. Yet, if the adjustment process is to be effective, it must be allowed to operate effectively in the key trading sectors. We must prevent trade restrictions from distorting the adjustments in the allocation of real resources which must take place if monetary adjustments are to have their intended impact. Priority attention must therefore be given to the agricultural sector, where the protectionism inherent in various national agricultural policies has led to a serious misallocation of world resources and may have had a significant effect on balance of payments adjustments.

The operation of variable levy systems and minimum import price systems in the EC, for example, acts to skim off any benefit supplying countries may achieve through exchange rate changes or increased price competitiveness generally. On the export side, export subsidies are used to move surpluses produced in response to artificially high domestic support prices on to world markets, thus negating advantages other supplying countries may have gained in third country markets due to exchange rate changes.

U.S. feedgrain exports are especially hard hit by these policies. Because U.S. feedgrain exports face not only variable levies in the Common Market but also state trading practices and import substitution policies in Japan, U.S. farmers cannot fully capitalize on their comparative advantage. One brief statistic will highlight this point: Between 1962 and 1972, the value of U.S. agricultural exports to the EC of six rose by 134% in products not subject to the variable levy and by only 13% in products subject to the variable levy. If this trend is to be reversed, we must have an international trading system that allows nations to use their resources in the most efficient manner.

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The failure to liberalize international agricultural trade over the last twenty years has undoubtedly contributed to the recurrent crises in the international monetary system by amplifying the growing weakness of the U.S. trade and payments position. It is always difficult to predict what U.S. agricultural exports would have been in the absence of restrictions. However, we believe that substantial liberalization in agriculture would have netted additional benefits to our balance of payments on the order of billions of dollars. The budgetary costs of agricultural protection have also been enormous. Among the principal developed countries, the current level of costs of farm income and price-support measures, to consumers and to taxpayers, is at least $30 billion annually.

In addition to the possible world-wide budgetary savings, a more efficient allocation of resources would result from the removal of barriers to world agricultural trade. While the American system is becoming increasingly more market oriented, in Europe and Japan the costs of food to consumers continue to be distorted by policies which encourage inefficient domestic production and bar the entry of cheaper products from abroad. Thus the liberalization of agricultural trade barriers would provide direct economic benefits to all, while contributing significantly to improvement in the U.S. trade and payments positions.

Furthermore, the maintenance of these barriers is particularly inappropriate in the case of those of our trading partners which are running payments surpluses. The monetary crises of recent years have reflected in part a failure of the system to provide effective incentives for countries to take action, including action in the trade sector to eliminate prolonged and excessive payments surpluses. Nor has the international community had available effective sanctions to induce chronically delinquent countries to take adjustment action.

Both the present monetary and trading rules need to be changed. We believe that trade measures could be used both as effective adjustment measures and as sanctions in a reformed international economic system. For example, in order to promote a liberal trading order and at the same time aid in the adjustment process, international economic rules should provide incentives for trade liberalization by surplus countries. Such countries could significantly reduce their tariffs and other trade barriers and particularly their agricultural trade barriers to the exports of other countries, concentrating on these

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items of interest to deficit countries. The rules should provide such incentives. They should not, as they tend to do now, operate primarily to make countries reluctant to liberalize unilaterally, because of possible impairment to their bargaining position in future trade negotiations. In exceptional circumstances and for limited periods of time, trade measures should be available for use by deficit countries to protect their overall external position. One use of such measures would be to enable a country to get through the transition period until more fundamental corrective measures take effect. In addition, countries should ultimately be permitted to impose sanctions on a chronic surplus country which persistently refuses to take effective adjustment measures.

The proposals for reform of the trading and monetary rules which I have outlined above and which the U.S. has proposed as a part of the reform of the international monetary system are obviously of great importance to the American farmer. Success in these negotiations will increase the benefits which American farmers can expect as a result of the major realignment of the world's currencies which has now been achieved.

Since 1971, there has been a highly important shift in currency relationships. The change took place in two steps -- the first in December 1971 when the U.S. proposed a 7.9 percent devaluation in the dollar, and the second in February 1973 when we proposed a further devaluation of 10 percent. Both moves were accompanied by exchange rate changes by a number of other countries. We consider the two U.S. moves and the accompanying changes by others as one single adjustment--a major adjustment of rates which was needed, and which has now been completed, to reflect the major structural changes in the world economy resulting from the post war strengthening of European and Japanese economies.

In total, if we measure this readjustment by a weighted average of U.S. trade, it means an effective devaluation of the dollar against Europe and Japan of approximately 24 percent as of April 13, 1973.

By the same weighted average method, it means an effective devaluation of the dollar against the entire world of 11 percent. Since the currencies of many major countries are now floating relative to the dollar, these percentages may change from day to day, although the extent of such changes has thus far been quite small. Table 1 attached, indicates the approximate change for

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some of the major currencies from the par values which were in effect on April 30, 1971.

This large exchange rate realignment yields important competitive opportunities to U.S. producers and provides a realistic base for restoration of a satisfactory equilibrium in the U.S. payments position. Provided we can, through the coming negotiations, assure fair access for our exports to foreign markets, and provided we maintain sound domestic policies to spur productivity and hold prices in check in the U.S., we should attain a viable, sustainable equilibrium in our international payments position. Without successful trade negotiations, the exchange rate changes which have taken place will have less effect on our farm exports. As I have said, the world market for agricultural products is subject to extensive restrictions. Trade patterns do not fully reflect competitive positions.

To the extent competitive forces are allowed to affect world markets for agricultural products, the realignment can be expected to produce, in time, a marked increase in the value and share of U.S. agricultural exports. The impact will vary for particular products and in particular markets. But the total should be substantial.

There have been attempts to estimate the total effect on our balance of payments of the realignment. Some academic experts have estimated that exchange rate changes since 1971 should benefit our balance of payments --not just in agricultural products but in all goods and services--by as much as $15 billion. Others have said $10 billion. We don't put much faith in any of these forecasts. For one thing there are many uncertainties about supply and demand elasticities. Also much depends on our ability to maintain the competitive edge which the realignment provides by holding down our costs and prices, and on the vigor with which our producers and exporters exploit their new competitive advantages. The realignment provides an important opportunity, and we must make the most of it. But we cannot accurately forecast what the actual trade effects will be.

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U.S. TRADE RELATIONS WITH THE SOVIET UNION, EASTERN EUROPE AND THE PEOPLE'S REPUBLIC OF CHINA

I would like to turn now to the potential for new trade relations with the Soviet Union, Eastern Europe, and the People's Republic of China--particularly with regard to the potential for U.S. farm exports to these countries.

As you are undoubtedly aware, our trade relations with these countries are in various stages of economic normalization. Let me briefly summarize the current status of these relations: (1) We have had fully normalized trade relations with Yugoslavia, including the extension of most-favored nation (MFN) treatment and Eximbank credits, for many years. (2) Poland received MFN treatment in 1960, but only became eligible for Eximbank credits in November 1972, following the signature of the US-Polish trade protocol in the wake of President Nixon's visit to Warsaw at the end of May, 1972. Also in November, Poland entered into an interim agreement with the Foreign Bondholders Protective Council, Inc., with respect to dollar bonds issued prior to World Way II. (3) Romania became eligible for Eximbank credits in late 1971, but has not yet received MFN treatment. We extended the facilities of the Overseas Private Investment Corporation (OPIC) to Romania in 1972 and supported its successful application to join the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD). Some outstanding financial and business facilitation issues remain to be discussed in bilateral relations. (4) Many of the remaining East European countries (Hungary, Czechoslovakia, Bulgaria, the German Democratic Republic and Albania) have indicated an interest in improving trade relations with the United States, including receiving MFN treatment and Eximbank credits. We signed a claims agreement with Hungary in March, 1973 and preliminary Hungarian discussions with the Foreign Bondholders Protective Council have begun. Czechoslovakia has indicated a desire to reopen claims talks and begin trade discussions. Discussions on a consular convention are underway with Bulgaria. We have had no trade discussions to date with the GDR or Albania. (5) Our trade relations with the Soviet Union showed the most marked improvement in 1972, including the May agreement to establish a joint U.S.-Soviet Commercial Commission (during President Nixon's visit to Moscow), the July grains agreement, and the October trade, maritime, and lend-lease agreements. The trade agreement includes as one of its provisions the extension of MFN to the Soviet Union and its entry into force therefore awaits Congressional action on this issue. (6) We have had no formal trade agreements with the People's Republic of China but have reduced restrictions on U.S. exports to and imports from China to the same level which applies to our trade with the Soviet Union. President Nixon's visit to China demonstrated an overall improvement in our relations which has resulted in

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the first direct trade with China since 1951, although the level of trade remains small.

The United States is interested in normalizing its trade relations with all of these countries for many reasons--as an important aspect of detente, representing mutual benefits for both sides; as potential markets for U.S. goods and the resulting benefits for the U.S. balance of payments; as a stimulus for more U.S. jobs through increased exports.

The recent agreements with the Soviet Union have already had a major impact on trade levels. U.S. two-way trade with the USSR rose from $218 million in 1971 to $642 million in 1972. During this same period, U.S. exports rose from $161 to $547 million, while imports rose from $57 to $95 million-for a U.S. balance of trade improvement of $348 million. Much of this increase occurred in farm products, mainly grains: the Soviet Union took $438 million worth (excluding transshipments) of U.S. agricultural products in 1972, compared to just $30 million in 1971. After a lapse of 20 years the People's Republic of China also emerged as a significant market for our agricultural commodities, taking $58 million in 1972. Eastern European countries (excluding Yugoslavia) took $184 million in U.S. agricultural goods in 1972, compared to $162 million a year earlier. Our overall favorable balance of trade with the Soviet Union and Eastern Europe (again excluding Yugoslavia) in all commodities increased from $159 million in 1971 to $496 million in 1972.

These trade figures provide a good indication of the agricultural market potential in these countries. Even though the failure of the Soviet grain crop was one of the major causes of the large increase in U.S. grain exports (especially wheat) to the USSR in 1972 and continuing into 1973, Soviet plans to increase meat production are expected to maintain a significant market for U.S. feedgrains in the USSR in the future. Similar attempts to step up meat production in Eastern Europe will also assist U.S. feedgrain exports.

The share of agricultural exports in our total exports to these nations has been very high: 76 percent of our exports to the Soviet Union and Eastern Europe (excluding Yugoslavia) and 97 percent of our exports to the People's Republic of China in 1972 were agricultural goods. Exports of manufactured goods are expected to increase substantially in the future and this share of the market for U.S. agricultural exports is likely to change, but agricultural exports are expected to remain significant.

The potential for increased exports to these countries in the future depends in large part on our willingness to fully normalize economic relations with them. This includes our willingness to grant these nations most-favored nation treatment and credits, for which we in turn obtain improved market access for exports and reciprocal credits. Our trade agreement with the Soviet Union, for example, included the provision that both Governments would take appropriate measures

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to encourage trade on the basis of mutual advantage and in expectation of such efforts, both Governments envisioned that total bilateral trade would at least triple over the three-year period of the Agreement, in comparison with the period 1969-1971. This would mean a 3-year trade total of $1.5 billion. The Department of agriculture has indicated that we contracted in 1972 to export $1 billion in grains alone to the Soviet Union for shipment during fiscal 1973. Our trade protocol with Poland similarly contemplates a tripling of trade over a five-year period.

The most-favored nation provision of the Trade Reform Act of 1973 (Section 504(b) of TitleV) is central of any improvement of commercial relationships with these countries. The provision would enable the President to extend MFN where he considers it to be in the national interest, and to suspend or withdraw in whole or part this treatment to prevent market disruption if necessary. The extension of MFN could be vetoed by a majority vote of either the House or the Senate within a three month period.

This authority would enable the United States to carry out its trade agreement with the Soviet Union and to ensure continued Soviet repayment of its lend-lease debt, which is linked to receipt of MFN status. It would also enable the United States to take advantage of opportunities to conclude beneficial agreements with other countries not now receiving MFN, including Romania.

TABLE 1

Exchange Rate Changes Against U.S. Dollar

	April 30, 1971 to April 13, 1973 Percent
Canada	0.9
France	22.2
Sweden a/	15.1
Italy	6.7
U.K.	3.5
Bel-Lux	25.0
Netherlands	23.1
Switzerland	35.3
Germany	29.2
Japan	35.4
Australia a/	26.3
Austria a/	26.6
Denmark a/	20.9
Finland b/	8.2
Greece b/	0
Iceland b/	-10.7
Ireland	3.5
Norway a/	21.0
Portugal a/	14.4
Spain a/	20.4
Turkey b/	7.1

a/ Market rate for April 6, 1973.

b/ New par value or central rate.

Notes:

Percent changes are calculated on basis of U.S. cents per foreign currency unit.

Base rates for the calculation are April 30, 1971 par values or, for Canada, market rate. For new rates, market rates as of April 13, 1971 are used, except as noted.

A positive (negative) number represents an appreciation (depreciation) relative to the dollar.

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April 16, 1973

JOHN M. PORGES
BIOGRAPHY

John M. Porges, of New York, New York, has been nominated by President Nixon, on April 13, 1973, to serve as the U.S. Executive Director of the Inter American Development Bank for a term of three years. Mr. Porges will replace Henry J. Costanzo, who resigned December 31, 1971.

Mr. Porges has been the Vice President in charge of Latin America with Morgan Guaranty Trust Co. since 1962. He joined Morgan Guaranty's International Division in 1953 and was named Assistant Treasurer in the Latin America area in 1958. He has also served as a Director of Banco Frances del Rio de la Plata, Buenos Aires, and as President of the Pan American Society. Mr. Porges enlisted in the U.S. Army in 1942 and served in the 44th Infantry Division in the European Theatre of Operations. He received a battlefield commission in France in 1945.

Mr. Porges, 50, attended Grinnell College, Grinnell, Iowa, and New York University where he received a B.A. degree. He also holds an M.A. degree from the University of Florida, Gainesville.

Mr. Porges is married to Anne Elina Barea of New York, New York. They have two children and presently reside in Douglas Manor, New York.

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FOR IMMEDIATE RELEASE April 16, 1973

CHIEF COUNSEL LEE H. HENKEL, JR., RESIGNS

Treasury Secretary George P. Shultz announced that President Nixon has accepted with "deep regret" the resignation of Lee H. Henkel, Jr., Assistant General Counsel and Chief Counsel for the Internal Revenue Service. Mr. Henkel plans to establish in Atlanta the law firm of Henkel and Lamon.

Mr. Henkel received Treasury's Exceptional Service Award which cited, among other things, "the exceptional service he rendered in connection with organizing the Stabilization Activity within the Chief Counsel's Office commencing with Phase II of the Economic Stabilization Program..."

He also received the General Counsel's Award which noted his "superb legal, managerial, and executive ability", and his "unusual leadership in improving the efficiency and economy of operations within the Chief Counsel's Office."

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Mr. Henkel has served as Chief Counsel since June 1972. He began his Treasury service in September 1971 when he was appointed Deputy Chief Counsel for the Internal Revenue Service.

Mr. Henkel, of Columbus, Georgia, is married to the former Barbara Davidson. They have three children.

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WASHINGTON, D.C. 20220 TELEPHONE WO4-2041

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ATTENTION: FINANCIAL EDITOR

FOR RELEASE 6:30 P.M. April 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 January 18, 1973, and the other series to be dated April 19, 1973, which were invited on April 10, 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 July 19, 1973		182-day Treasury bills maturing October 18, 1973	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv. Annual Rate
High	98.443	6.160%	96.778 a/	6.373%
Low	98.432	6.203%	96.765	6.399%
Average	98.436	6.187% 1/	96.770	6.389% 1/

a/ Excepting 4 tenders totaling $8,010,000

42% of the amount of 91-day bills bid for at the low price was accepted

19% of the amount of 182-day bills bid for at the low price was accepted

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	Applied For	Accepted
Boston	$ 13,805,000	$ 9,280,000	$ 3,170,000	$ 2,470,000
New York	2,924,540,000	1,597,105,000	2,788,540,000	1,274,580,000
Philadelphia	38,585,000	15,010,000	7,280,000	7,070,000
Cleveland	26,210,000	24,020,000	13,585,000	11,915,000
Richmond	26,330,000	10,330,000	26,570,000	5,805,000
Atlanta	22,645,000	13,515,000	24,355,000	9,285,000
Chicago	287,215,000	38,135,000	265,755,000	17,240,000
St. Louis	72,360,000	29,345,000	75,980,000	25,480,000
Minneapolis	22,655,000	6,655,000	25,485,000	3,485,000
Kansas City	45,380,000	23,630,000	27,100,000	13,710,000
Dallas	39,115,000	13,620,000	31,970,000	9,970,000
San Francisco	651,660,000	619,905,000	470,010,000	419,110,000
TOTALS	$4,170,500,000	$2,400,550,000 b/	$3,759,800,000	$1,800,120,000 c/

b/ Includes $222,465,000 noncompetitive tenders accepted at the average price of 98.436

c/ Includes $121,280,000 noncompetitive tenders accepted at the average price of 96.770

1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 6.37% for the 91-day bills, and 6.69% for the 182-day bills.

STATEMENT BY THE HONORABLE JACK F. BENNETT
DEPUTY UNDER SECRETARY OF THE TREASURY
FOR MONETARY AFFAIRS
BEFORE THE
HOUSE APPROPRIATIONS SUBCOMMITTEE FOR AGRICULTURE
ENVIRONMENTAL AND CONSUMER PROTECTION
TUESDAY, APRIL 17, 1972, AT 1:00 P.M. (EST)

Mr. Chairman and members of the subcommittee:

I am pleased to be here today to support the Treasury Department's appropriation request for the Environmental Financing Authority for the fiscal year 1974.

The Environmental Financing Authority, or EFA, was created by the "Environmental Financing Act of 1972," which was enacted as section 12 of Public Law 92-500, October 18, 1972.

EFA has a limited, but important, function. The sole purpose of EFA is to help assure that the national program for the construction of essential municipal waste treatment facilities is not interrupted because of the inability of municipalities to sell their waste treatment bonds on reasonable terms.

Under the "Federal Water Pollution Control Act Amendments of 1972" the Environmental Protection Agency

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will provide Federal grants to cover 75 percent of the construction costs of municipal waste treatment facilities. The remaining 25 percent non-Federal share of the construction costs will to a large extent be financed by local debt issues. EFA will purchase those obligations only if they cannot be sold in the private market on reasonable terms.

EFA could not purchase any obligation unless the Administrator of the Environmental Protection Agency (1) has certified that the borrower is unable to obtain on reasonable terms sufficient credit to finance its actual needs, (2) has approved the project as eligible for a waste treatment construction grant under the Federal Water Pollution Control Act, and (3) has agreed to guarantee timely payment of principal and interest on the obligation.

EFA will finance its purchases of municipal obligations by selling its own obligations in the market or to the Treasury. No appropriation action by the Congress is required with respect to borrowing by EFA in the private market. However, any purchases of EFA obligations by the Secretary of the Treasury must be authorized in appropriation Acts. The 1972 Act also authorizes the Secretary of the Treasury to provide initial capital to EFA, which must be repaid

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with interest, and appropriations of $100 million are authorized for such initial capital advances.

The FY 1974 requests (1) for appropriations of $100 million for initial capital advances and (2) for authority for the Secretary of the Treasury to purchase up to $200 million of EFA's obligations are necessary in order to assure that EFA will have sufficient resources available from the Treasury for purchasing $300 million of bonds of local public bodies. This assurance will allow EFA a reasonable amount of time to arrange for its permanent financing in the private market. The actual amount of borrowing from the Treasury may well be less, depending upon financial market conditions and decisions in FY 1974 as to the appropriate timing and amount of EFA's initial borrowings in the market.

We are also requesting authority for the Secretary of the Treasury to purchase EFA's obligations in such amounts as may be necessary to permit EFA to make timely payment of principal and interest on its market obligations. This authority is not expected to be used but is necessary to provide for an effective guarantee of EFA's market issues and thus save the Government money by

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minimizing the interest rate required on such market borrowings. That is, investors will purchase EFA's obligations at a lower interest rate if they are assured that EFA may borrow from Treasury if necessary to make timely payment of principal and interest on its market obligations.

I would like to point out that the appropriations actions proposed today are not the determinant of the maximum amount of waste treatment facilities which will receive Federal assistance. That determination is made by the Congress in its annual approval of grant authority for the Environmental Protection Agency. I am here merely to request authority to insure that the projects approved by the Environmental Protection Agency under its authority from Congress can actually be financed and constructed.

That concludes my prepared statement, Mr. Chairman. I will be happy to answer any questions on these requests.

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

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FOR IMMEDIATE RELEASE April 17, 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 April 26, 1973, in the amount of $4,200,830,000 as follows:

91-day bills (to maturity date) to be issued April 26, 1973, in the amount of $2,400,000,000, or thereabouts, representing an additional amount of bills dated January 25, 1973, and to mature July 26, 1973 (CUSIP No. 912793 RMO), originally issued in the amount of $1,901,115,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,800,000,000, or thereabouts, to be dated April 26, 1973, and to mature October 25, 1973 (CUSIP No. 912793 SA5).

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, April 23, 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 April 26, 1973, in cash or other immediately available funds or in a like face amount of Treasury bills maturing April 26, 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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MEMORANDUM TO CORRESPONDENTS: April 17, 1973

Attached is a copy of the letter of transmittal from the Secretary of the Treasury to the Speaker of the House proposing legislation to strengthen and improve the private retirement system by establishing minimum standards for participation in and for vesting of benefits under pension and profit-sharing plans, by providing certain tax incentives and statutory requirements for the plans. A copy of the bill and general explanation also are attached. A similar letter was transmitted to the President of the Senate.

Attachments

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THE SECRETARY OF THE TREASURY
WASHINGTON

APR 17 1973

Dear Mr. Speaker:

There is transmitted herewith a proposed bill entitled "Retirement Benefits Tax Act," as recommended by the President in his message of April 11, 1973, on pension reform.

The bill is a revised and expanded version of the draft bill entitled "Individual Retirement Benefits Act of 1971," transmitted to you by Deputy Secretary Charls E. Walker on December 13, 1971. This legislation is designed to strengthen the private retirement system by providing minimum standards of participation in the benefits offered by employer-sponsored retirement plans, to encourage the expansion of the private retirement system by offering greater tax benefits to individuals who choose to invest in retirement savings plans, and to increase the deductible contributions which may be made to retirement plans on behalf of self-employed individuals and shareholder-employees of electing small business corporations. A discussion of the provisions of the enclosed bill is contained in the general explanation enclosed herewith.

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

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A BILL

To strengthen and improve the private retirement system by establishing minimum standards for participation in and for vesting of benefits under pension and profit-sharing retirement plans, by allowing deductions to individuals for their contributions to retirement plans, by increasing contribution limitations for self-employed individuals and shareholder-employees of electing small business corporations, by imposing an excise tax on prohibited transactions, and for other purposes.

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

SECTION 1. SHORT TITLE, ETC.

(a) Short Title.--This Act may be cited as the "Retirement Benefits Tax Act".

(b) Amendment of 1954 Code.--Except as otherwise expressly provided, whenever in this Act an amendment is expressed in terms of an amendment to a section or other provision, the reference is to a section or other provision of the Internal Revenue Code of 1954.

SEC. 2. MINIMUM STANDARDS RELATING TO FUNDING, ELIGIBILITY AND VESTING.

(a) In General.--Section 401 (a) (relating to requirements for qualification) is amended:

(1) by inserting at the end of paragraph (7) the following:

"For purposes of this paragraph, a complete discontinuance of contributions under a defined benefit pension plan occurs if the amount contributed to or under the plan for a plan year beginning after December 31, 1973, is less than the minimum funding standard. For this purpose, the minimum funding standard is the excess (if any) of--

"(A) the sum of--

"(i) the normal cost of the plan for such year plus interest on the unfunded liability, computed under the funding method used to determine normal costs,

"(ii) 5 percent of the unfunded liability for nonforfeitable benefits under the plan (computed as the excess of the present value of the then accrued nonforfeitable benefits over the fair market value of the assets), and

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"(iii) the total of the amounts determined under clauses (i) and (ii) with respect to the plan for each of the preceding plan years beginning after December 31, 1973, over

"(B) the total of the amounts contributed to or under the plan for each of the preceding plan years beginning after December 31, 1973.

The minimum funding standard determined under the preceding sentence shall not exceed the excess (if any) of the accrued liability under the entry age normal funding method (including the normal cost for the year), over the fair market value of the assets held under the plan. In lieu of the minimum funding standard otherwise provided under this paragraph, the Secretary or his delegate may authorize the use of another minimum funding standard which results in a satisfactory rate of funding.", and

(2) by adding at the end thereof the following new paragraphs:

"(11) A trust shall not constitute a qualified trust under this section if the plan of which such trust is a part requires, as a condition of participation, that an employee--

"(A) have a period of continuous service with the employer (or, in accordance with regulations prescribed by the Secretary or his delegate, a predecessor of the employer) in excess of 3 years, "(B) have attained an age in excess of 30 years, or

"(C) have not attained an age which is greater than the normal retirement age under the plan reduced by 5 years.

The Secretary or his delegate shall by regulation define the term 'normal retirement age under the plan' for purposes of this paragraph.

"(12) (A) Except as provided in subparagraphs (B) and (C), a trust shall not constitute a qualified trust under this section unless, under the plan of which such trust is a part, an employee's rights in his accrued benefit derived from his own contributions are nonforfeitable (other than by reason of death); his rights in at least 50 percent of his accrued benefit derived from employer contributions become nonforfeitable (other than by reason of death)--

"(i) as of the close of the first plan year in which the sum of his age and the period of his active participation in the plan equals or exceeds 50 years, or

"(ii) as of the time he has completed 3 years of continuous service with the employer (or, in accordance with regulations prescribed by the Secretary or his delegate, a predecessor of the employer), whichever occurs later; and his rights in the remaining percentage of all of his accrued benefit derived from employer contributions become non-forfeitable (other than by reason of death) not less rapidly than ratably over the next succeeding 5 plan years.

"(B) A trust which is a part of a plan to which employees are required to contribute as a condition of participation shall not be disqualified under this paragraph merely because an employee's rights in his accrued benefit derived from employer contributions under the plan are forfeitable if, by reason of his separation from the service or termination of his active participation in the plan, he voluntarily withdraws all or a part of the amount contributed by him.

"(C) This paragraph shall not apply to contributions which, under provisions of the plan adopted pursuant to regulations prescribed by the Secretary or his delegate to preclude discrimination prohibited by paragraph (4), may not be used to provide benefits for designated employees in the event of early termination of the plan.

"(D) For purposes of this paragraph and subsection (d) (2) (A), an employee's accrued benefit as of any applicable date is--

"(i) in the case of a defined benefit pension plan, except as provided under subparagraph (F), the annual benefit commencing at normal retirement age

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to which he would be entitled under the plan as in effect at such time if he continued to earn annually until normal retirement age the same rate of compensation as he earned at such time (based upon his earnings during the 12 preceding months or, if shorter, the actual preceding period of employment) multiplied by a fraction, the numerator of which is the total number of his years of service with the employer (or, in accordance with regulations prescribed by the Secretary or his delegate, a predecessor of the employer) performed as of such time, and the denominator of which is the total number of years of service he would have performed as of normal retirement age if he had continued to be employed by the employer until attaining such age, except that the denominator of such fraction shall not be less than 15 nor more than 40, or

"(ii) in the case of a plan other than a defined benefit pension plan, the balance of the account or accounts for such employee as of that time.

For purposes of this subparagraph, the fraction referred to in clause (i) shall be equal to one at normal retirement age and shall never exceed one. In the case of a defined benefit pension plan which permits voluntary employee contributions, the portion of an employee's accrued benefit derived from such contributions shall be treated as an accrued benefit derived from contributions under a plan other than a defined benefit pension plan.

"(E) For purposes of this paragraph, an employee's accrued benefit derived from employer contributions as of any applicable date is the excess of the accrued benefit determined under subparagraph (D) for such employee as of such applicable date over the amount of the accrued benefit derived from contributions made by such employee as of such date. With respect to a plan other than a defined benefit pension plan, the amount of accrued benefit derived from contributions made by an employee is the benefit attributable to the balance of the employee's separate account consisting only of his contributions and the income, gains and losses attributable thereto or, if a separate account is not maintained with respect to an employee's contributions under such a plan, is an amount which bears the same ratio to the total accrued benefit as the total amount of the employee's contributions (less withdrawals) bears to the total amount of such contributions and the contributions made on his behalf by the employer.

With respect to a defined benefit pension plan providing an annual benefit in the form of a single life annuity commencing at normal retirement age, the amount of the accrued benefit derived from contributions made by an employee as of any applicable date is the annual benefit equal to the employee's accumulated contributions multiplied by the appropriate conversion factor. For this purpose, the term 'appropriate conversion factor' means the factor necessary to convert an amount equal to the accumulated contributions to a single life annuity commencing at normal retirement age and shall be 10 percent for a normal retirement age of 65 years. For other normal retirement ages the

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conversion factor shall be determined in accordance with regulations prescribed by the Secretary or his delegate. For purposes of this subparagraph, the term 'accumulated contributions' means the total of:

"(i) all mandatory contributions made by the employee before the end of the last plan year referred to in paragraph (14) (A) (i) or (ii), together with interest (if any) credited thereon under the plan to the end of such plan year (to the extent such contributions and interest are nonforfeitable on the applicable date), and interest compounded annually thereafter at the rate of 5 percent per annum, to the date upon which the employee would attain normal retirement age, and

"(ii) all mandatory contributions made by the employee after the end of the last plan year referred to in paragraph

(14) (A) (i) or (ii), together with interest on such contributions compounded annually at the rate of 5 percent per annum to the date upon which the employee would attain normal retirement age. The accrued benefit derived from contributions made by an employee shall not exceed the accrued benefit determined under subparagraph (D). For purposes of this subparagraph, mandatory contributions made by an employee are the contributions that are required to be made under the plan to receive any benefit derived from employer contributions.

"(F) For purposes of this paragraph, in the case of any defined benefit pension plan, if an employee's accrued benefit is to be determined as an amount other than an annual benefit commencing at normal retirement date, or if the amount of accrued benefit derived from contributions made by an employee is to be determined with respect to a benefit other than an annual benefit in the form of a single life annuity commencing at normal retirement age, the employee's accrued benefit, or the amount of accrued benefit derived from contributions made by an employee, as the case may be, shall be the actuarial equivalent (determined in accordance with regulations prescribed by the Secretary or his delegate) of such benefit or amount determined under subparagraph (D) or (E).

"(13) (A) Except as provided in subparagraph (B), a trust which is a part of a defined benefit pension plan in existence on December 31, 1972, shall not be disqualified under paragraph (12) merely because the plan of which it is a part provides that an employee's accrued benefit derived from employer contributions for any plan year is forfeitable if--

"(i) for such plan year the sum of the periodic benefit payments to retired participants exceeds the benefit accruals (determined in accordance with regulations prescribed by the Secretary or his delegate) by active participants, and

"(ii) as of the beginning of such plan year, the sum of the present values of accrued plan liabilities to active and retired participants exceeds the fair market value of plan assets.

"(B) Subparagraph (A) shall not apply--

"(i) for any plan year which begins after December 31, 1972, in which the plan is amended to provide additional or increased benefits;

"(ii) for any plan year beginning after the plan year described in clause (i); or

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"(iii) for any plan year which begins after December 31, 1972, and which precedes the plan year described in clause (i) by not more than five plan years.

"(14) (A) Except as provided by subparagraph (B), paragraphs (11) and (12) shall not apply in the case of a plan in existence on December 31, 1972, with respect to the eligibility of participants or the benefits accrued under such plan during--

"(i) a plan year which begins before January 1, 1975, or

"(ii) if later, a plan year ending before the termination of an agreement, pursuant to which the plan is maintained, which the Secretary or his delegate finds to be a collective bargaining agreement, between employee representatives and one or more employers, in effect on December 31, 1972.

For purposes of clause (ii), the date on which an agreement terminates shall be determined without regard to any extension thereof agreed to after December 31, 1972.

"(B) Paragraph (12) shall apply to all benefits accrued under the plan unless--

"(i) the conditions of nonforfeitability provided under the plan as in effect on December 31, 1972, remain in effect with respect to benefits accrued during any plan year referred to in subparagraph (A) (i) or (ii), and

"(ii) in the case of a profit-sharing, stock bonus, or money purchase pension plan, separate accounts are maintained with respect to the benefits accrued during the plan years referred to in subparagraph (A) (i) or (ii)."

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(b) Plans Benefiting Owner-Employees.--Section 401 (d) (relating to additional requirements for qualification of trusts and plans benefiting owner-employees) is amended--

(1) Vesting.--By striking out paragraph (2) (A) and inserting in lieu thereof:

"(A) an employee's rights to his accrued benefit derived from his own contributions (within the meaning of subsection (a) (12)) are nonforfeitable (other than by reason of death), and his rights in at least 50 percent of such accrued benefit derived from employer contributions (within the meaning of subsection (a) (12)) are nonforfeitable (other than by reason of death) as of the close of the first plan year in which the sum of his age and the period of his active participation in the plan equals or exceeds 35 years, and his rights in the remaining percentage of all of his accrued benefit derived from employer contributions become nonforfeitable (other than by reason of death) not less rapidly than ratably over the next succeeding 5 plan years; and".

(2) Eligibility conditions.--By striking out paragraph (3) and inserting in lieu thereof:

"(3) The plan benefits--

"(A) each employee who has not attained the age of 30 years and has a period of continuous service with the employer of 3 or more years,

"(B) each employee who has attained the age of 30 years but has not attained the age of 35 years and has a period of continuous service with the employer of 2 or more years, and

"(C) each employee who has attained the age of 35 years and who has a period of continuous service with the employer of 1 or more years.

For purposes of the preceding sentence, the term 'employee' does not include any employee whose customary employment is for not more than 20 hours

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in any one week or is for not more than 5 months in any calendar year. For purposes of this paragraph, under regulations prescribed by the Secretary or his delegate, the term 'employer' shall include a predecessor of the employer."

(c) Conforming Amendments.--

(1) Section 404 (a) (2) (relating to deduction for contributions of an employer to employees' annuity plan) is amended by striking out "and (8), and, if applicable, the requirements of section 401 (a) (9) and (10) and of section 401 (d) (other than paragraph (1))," and inserting in lieu thereof "(8), (11), (12), and (13), and, if applicable, the requirements of section 401 (a) (9) and (10), section 401 (c) (6), and section 401 (d) (other than paragraph (1)),".

(2) Section 405 (a) (1) (relating to qualified bond purchase plans) is amended by striking out "and (8) and, if applicable, the requirements of section 401 (a) (9) and (10) and of section 401 (d) (other than paragraphs (1), (5) (B), and (8)); and"

and inserting in lieu thereof "(8), and (11), and, if applicable, the requirements of section 401 (a) (9) and (10) and of section 401 (d) (other than paragraphs (1), (2) (A), (5) (B), and (8)); and".

(3) Section 805 (d) (1) (C) (relating to definition of pension plan reserves) is amended by striking out "and (8)" and inserting in lieu thereof "(8), (11), (12), and (13)".

(d) Effective Dates.--

(1) General rule.--Except as provided by paragraph (2), the amendments made by this section shall be effective after the date of enactment of this Act.

(2) Exception.--The amendments made by subsection (b)(2) shall not apply for a plan year beginning before January 1, 1975, in the case of a trust or contract which is a part of a plan in existence on December 31, 1972.

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SEC. 3. DEDUCTION FOR RETIREMENT SAVINGS.

(a) In General.--Part VII of subchapter B of chapter 1 (relating to additional itemized deductions for individuals) is amended by redesignating section 219 as 220 and inserting after section 218 the following new section:

"SEC. 219. RETIREMENT SAVINGS.

"(a) Deduction Allowed.--Subject to the limitations imposed by subsections (b) and (c), in the case of an individual, there shall be allowed as a deduction amounts paid in cash during the taxable year by such individual--

"(1) to or under a qualified individual retirement account described in section 408 (a) which is exempt from tax under section 501 (a), if the individual established such account,

"(2) to an employees' trust described in section 401 (a) which is exempt from tax under section 501 (a), for his benefit,

"(3) for the purchase of an annuity contract for the individual under a plan which meets the requirements of section 404 (a) (2), or

"(4) to or under a qualified bond purchase plan described in section 405 (a), for his benefit.

"(b) Limitations.--

"(1) General rule.--Except as provided in paragraphs (2) and (3), the amount allowable as a deduction under subsection (a) to an individual for any taxable year shall not exceed an amount equal to 20 percent of his earned income paid or accrued for such taxable year, or $1,500, whichever is the lesser. This limitation shall apply to the sum of the amounts paid during the taxable year by the individual to or under all accounts, trusts, and plans described in subsection (a).

"(2) Reduction on account of employer contributions to qualified pension, etc., plans.--The amount of the limitation otherwise determined under this

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subsection for any taxable year shall be reduced by the amount (determined in accordance with regulations prescribed by the Secretary or his delegate) of contributions paid on behalf of the individual by his employer (including an employer within the meaning of section 401 (c) (4)) for the individual's taxable year--

"(A) to an employees' trust described in section 401 (a) which is exempt from tax under section 501 (a),

"(B) for the purchase of an annuity contract under a plan which meets the requirements of section 404 (a) (2),

"(C) to or under a qualified bond purchase plan described in section 405 (a), or

"(D) for the purchase of an annuity contract described in section 403 (b).

In accordance with regulations prescribed by the Secretary or his delegate, the amount of contributions described in subparagraphs (A), (B), and (C) of the preceding sentence paid on behalf of an individual by his employer for his taxable year may, at the option of the individual, be considered to be 7 percent of his earned income paid or accrued for such taxable year attributable to the performance of personal services for such employer. The previous sentence shall not apply in the case of a contribution on behalf of an owner-employee within the meaning of section 401 (c) (5).

"(3) Reduction for certain employees.--If an individual has earned income for the taxable year which is not subject to tax under chapter 2, 21, or 22, the amount of the limitation otherwise determined under this subsection for such year shall be reduced by an amount equal to the tax (or the increase in tax) that would have been imposed upon such income under section 3101 for the taxable year had such income constituted wages (as defined in section 3121 (a)) received by him with respect to employment (as defined in section 3121 (b)).

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"(4) Contributions made after age 70-1/2 years.--No deduction shall be allowed under this section with respect to any payment described in subsection (a) which is made by an individual who has attained the age of 70-1/2 years.

"(c) Recontributed Amounts.--No deduction shall be allowed under this section with respect to a contribution to which section 72 (p) (2) (C), 402 (a) (6) or (7), or 403 (a) (4) or (5), applies.

"(d) Married Individuals.--In the case of a married individual (as defined in section 153), the amount determined under subsection (b) (1) shall be determined without regard to the earned income of his spouse and without regard to contributions described in subsection (b) (2) paid on behalf of his spouse. For purposes of this section, the earned income of a married individual shall be determined without regard to the community property laws of a State.

"(e) Earned Income Defined.--For purposes of this section, the term 'earned income' means any income which is earned income within the meaning of section 401 (c) (2) or 911 (b).

"(f) Time Contributions Deemed Made.--For purposes of this section and section 408, an individual shall be deemed to have made a payment during the taxable year if the payment is on account of such taxable year and is made not later than the time prescribed by law for filing the return for such taxable year (including extensions thereof)."

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(b) Individual Retirement Accounts.--Part I of subchapter D of chapter 1 (relating to pension, etc. plans) is amended by adding at the end thereof the following new section:

"SEC. 408. INDIVIDUAL RETIREMENT ACCOUNTS.

"(a) Requirements for Qualification.--A trust created or organized in the United States shall constitute a qualified individual retirement account under this section provided that under a written governing instrument--

"(1) it is maintained for the purpose of distributing the contributions thereto and the income therefrom to the individual who established it or his beneficiaries;

"(2) except in the case of a contribution to which section 72 (p) (2) (C), 402 (a) (6), or 403 (a) (4) applies, contributions thereto during any taxable year may not exceed the excess of--

"(A) the limitation provided by section 219 (b) for such taxable year, over

"(B) the sum of the amounts paid by such individual during such year--

"(i) to an employees' trust described in section 401 (a) which is exempt from tax under section 501 (a), for his benefit,

"(ii) for the purchase of an annuity contract for the individual under a plan which meets the requirements of section 404 (a) (2), or

"(iii) to or under a qualified bond purchase plan described in section 405 (a), for his benefit,

and may be made only by the individual who established such account;

"(3) the assets thereof may not be commingled with other property except in a common trust fund;

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"(4) the assets thereof are required to be held in trust by, or in the custody of, a bank (as defined in section 401 (d) (1)) or other person who demonstrates to the satisfaction of the Secretary or his delegate that the manner in which such other person will hold or have custody of such assets will be consistent with the requirements of this section;

"(5) the entire interest of the individual who established it will be distributed to him not later than his taxable year in which he attains the age of 70-1/2 years, or will be distributed, commencing not later than such taxable year, in accordance with regulations prescribed by the Secretary or his delegate, over--

"(A) the life of such individual or the lives of such individual and his spouse, or

"(B) a period not extending beyond the life expectancy of such individual or the life expectancy of such individual and his spouse;

"(6) if the individual who established it dies before his entire interest has been distributed to him, or if distribution has been commenced in accordance with paragraph (5) to his surviving spouse and such surviving spouse dies before the entire interest has been distributed to such surviving spouse, the entire interest (or the remaining part of such interest if distribution thereof has commenced) will, within 5 years after his death (or the death of his surviving spouse) be distributed, or applied to the purchase of an immediate annuity for his beneficiary or beneficiaries (or the beneficiary or beneficiaries of his surviving spouse) which will be payable for the life of such beneficiary or beneficiaries (or for a term certain not extending beyond the life expectancy of such beneficiary or beneficiaries) and which will be immediately distributed to such beneficiary or beneficiaries; and

"(7) if contributions thereto may be used for the purchase of an annuity or similar contract issued by a life insurance company, any refunds of premiums are applied within the current taxable year or next succeeding taxable year toward the payment of future premiums or the purchase of additional benefits.

For purposes of this title, a custodial account, annuity contract, or other similar arrangement shall be treated as a trust constituting a qualified individual retirement account. For purposes of paragraph (4), if the assets are held in custody, record title to the assets shall be in

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the name of the custodian or his nominee. Paragraph (6) shall not apply if distribution of the interest of such individual has commenced and such distribution is for a term certain over a period permitted under paragraph (5).

"(b) Special Rules.--

"(1) Excess contributions.--To the extent that contributions during any taxable year to a qualified individual retirement account are not deductible under section 219, they shall be treated, under regulations prescribed by the Secretary or his delegate, in the same manner as provided for in paragraphs (2) and (3) of section 401 (e) (relating to excess contributions on behalf of owner-employees).

"(2) Community property laws.--This section shall be applied without regard to the community property laws of any State.

"(c) Treatment as Qualified Trust Benefiting Owner-Employee.--Solely for purposes of subchapter F, chapter 44, and subtitle F, a qualified individual retirement account shall be treated as a trust described in section 401 (a) which is part of a plan providing contributions or benefits for employees some or all of whom are owner-employees (as defined in section 401 (c) (3)), the individual who established such qualified individual retirement account shall be treated as an owner-employee for whom such contributions or benefits are provided, and the person holding or having custody of the assets of such qualified individual retirement account shall be treated as the trustee of such trust. If section 72 (p) (2) (C), 402 (a) (6), or 403 (a) (4) applies to a contribution to a qualified individual retirement account, chapter 44 shall not be applied to such contribution.

"(d) Taxability of Beneficiary of Qualified Individual Retirement Account.--

"(1) In general.--Except as provided in paragraphs (2) and (3), the amount actually paid, distributed or made available to any payee or distributee by a qualified individual retirement account shall be taxable to him in the year in which actually paid or distributed under section 72 (relating to annuities).

"(2) Recontributed amounts.--Amounts paid or distributed by a qualified individual retirement account, except amounts distributed pursuant to provisions of the governing instrument meeting the requirements of subsection (a) (5), shall not be includible in gross income in the

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year paid or distributed to the extent that such amounts are not subject to the tax imposed by section 72 (p) (3) by reason of the application of section 72 (p) (2) (C).

"(3) Repayment of excess contributions.--Amounts paid or distributed under subsection (b) (1) by a qualified individual retirement account shall not be includible in gross income in the year paid or distributed.

"(4) Applicability of section 72 (m).--Under regulations prescribed by the Secretary or his delegate, an individual who establishes a qualified individual retirement account shall be treated as an employee who is an owner-employee for purposes of applying paragraphs (2) and (4) of section 72 (m) (relating to special rules applicable to employee annuities and distributions under employee plans).

"(e) Treatment of Nonqualified or Nonexempt Account.--If for the preceding taxable year of a trust it was described in subsection (a) and was exempt from tax under section 501 (a) and if for the taxable year such trust is not exempt from tax under section 501 (a), the fair market value of the account at the beginning of the taxable year, reduced by any contributions of the individual who established such account which were not deductible under section 219, shall be included in the gross income of the individual who established such account or his beneficiary as if the assets of the trust had been distributed on the first day of the taxable year.

"(f) Cross References.--

"(1) For excise tax on a qualified individual retirement account, see section 4960.

"(2) For additional tax on certain distributions from a qualified individual retirement account, see section 72 (p)."

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(c) Treatment of Distributions from Individual Retirement Accounts.--Section 72 (relating to annuities) is amended--

(1) by striking out subsection (m) (1),

(2) by inserting after "section 401 (c) (1)" in subsection (m) (2)", or under section 219",

(3) by striking out at the end of subsection (m) (3) (A) (i) "or",

(4) by striking out at the end of subsection (m) (3) (A) (ii) "participant." and inserting in lieu thereof "participant, or",

(5) by inserting after subsection (m) (3) (A) (ii) the following new clause--

"(iii) purchased by a trust described in section 408 (a) which is exempt from tax under section 501 (a).",

(6) by striking out subsection (m) (3) (B) and inserting in lieu thereof:

"(B) Any contribution to a plan described in subparagraph (A) (i) or a trust described in subparagraph (A) (ii) or (iii) which is

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allowed as a deduction under section 404 or section 219, and any income of a trust described in subparagraph (A) (ii) or (iii), which is determined in accordance with regulations prescribed by the Secretary or his delegate to have been applied to purchase the life insurance protection under a contract described in subparagraph (A), is includible in the gross income of the participant for the taxable year when so applied.",

(7) by inserting after "501 (a)" in subsection (m) (4) (A) ",a trust described in section 408 (a) which is exempt from tax under section 501 (a),",

(8) by inserting after "501 (a)" in subsection (m) (4) (B) ",a trust described in section 408 (a) which is exempt from tax under section 501 (a),", and

(9) by redesignating subsection (p) as (q) and inserting after subsection (o) the following new subsection:

"(p) Treatment of Certain Premature Distributions.--

"(1) Application of subsection.--This subsection shall apply to amounts paid or distributed--

"(A) by a qualified individual retirement account described in section 408 (a) which is exempt from tax under section 501 (a), or

"(B) by a qualified trust described in section 401 (a) which is exempt from tax under section 501 (a) or under a plan described in section 403 (a), but only to the extent attributable, as determined under regulations prescribed by the Secretary or his delegate, to amounts with respect to which a deduction was allowed under section 219 (relating to retirement savings),

which are includible in the gross income of the distributee or payee and which are received by him before the individual who established such qualified individual retirement account or the individual who was allowed such deduction attains the age of 59-1/2 years.

"(2) Limitations.--This subsection shall not apply to an amount described in paragraph (1)--

"(A) paid or distributed to such individual on account of his becoming disabled within the meaning of subsection (m) (7),

"(B) includible in gross income under section 72 (m) (3) (B), or

"(C) paid or distributed by a qualified individual retirement account to the individual who established such account if, within 60 days after receipt, such amount is contributed in full to another qualified individual retirement account established by such individual. Subparagraph (C) shall not apply for a taxable year if during the three year period ending on the date such amount is received, this subsection did not apply to an amount previously received by the individual because of subparagraph (C). Subparagraph (C) shall not apply unless the same property received in a payment or distribution is contributed. The Secretary or his delegate shall prescribe such regulations as he may deem necessary to carry out the purposes of this paragraph.

"(3) Amount of penalty.--If an individual is required to include in gross income for the taxable year an amount to which this subsection applies, there shall be imposed in addition to any other tax imposed by this chapter a tax for such taxable year equal to 30 percent of such amount. The tax imposed under this paragraph shall not be reduced by any credit under part IV of subchapter A (other than sections 31, 39, and 42 thereof), and shall not be treated as a tax imposed by this chapter for purposes of section 56."

(d) Excise Tax on Excessive Accumulations.--Subtitle D (relating to miscellaneous excise taxes) is amended by adding at the end thereof the following new chapter:

"CHAPTER 43--RETIREMENT PLANS

"Sec. 4960. Excise tax on individual retirement accounts.

"SEC. 4960. EXCISE TAX ON INDIVIDUAL RETIREMENT ACCOUNTS.

"There is hereby imposed for each taxable year on the assets of a qualified individual retirement account described in section 408 (a) which is exempt from tax under section 501 (a) a tax equal to 10 percent of an amount which bears the same ratio to the fair market value of the total assets in such account at the beginning of the taxable year as the minimum amount required to be distributed during such year under section 408 (a) (5) or (6) (whichever applies) reduced (but not below zero) by the total amount actually distributed during such year by the account to the individual who established such account or his beneficiary bears to the minimum amount required to be distributed during such year under section 408 (a) (5) or (6) (whichever applies). The tax imposed by this section shall apply only for taxable years beginning after the taxable year in which the individual who established such account attains the age of 70-1/2 years. For purposes of this section, the minimum amount required to be distributed during a year under section 408 (a) (5) or (6) shall be determined under regulations prescribed by the Secretary or his delegate."

(e) Conforming Amendments.--

(1) Retirement income.--Section 37 (c) (1) (defining retirement income) is amended--

(A) by striking out subparagraph (A) and inserting in lieu thereof the following new subparagraph:

"(A) pensions and annuities including--

"(i) in the case of an individual who is, or has been, an employee within the meaning of section 401 (c) (1), a distribution by a trust described in section 401 (a) which is exempt from tax under section 501 (a) to the extent such distribution was not subject to the tax imposed by section 72 (p) (3), and

"(ii) distributions from a qualified individual retirement account described in section 408 (a) which is exempt from tax under section 501 (a) to the extent such distribution was not subject to the tax imposed by section 72 (p) (3),"

(B) by striking out subparagraph (E) and inserting in lieu thereof the following new subparagraph:

"(E) bonds described in section 405 (b) (1) which are received--

"(i) under a qualified bond purchase plan described in section 405 (a),

"(ii) in a distribution from a trust described in section 401 (a) which is exempt from tax under section 501 (a),

"(iii) from a qualified individual retirement account described in section 408 (a) which is exempt from tax under section 501 (a), or".

(2) Adjusted gross income.--Section 62 (relating to definition of adjusted gross income) is amended by inserting after paragraph (9) the following new paragraph:

"(10) Individual retirement savings.--The deduction allowed by section 219."

(3) Treatment of total distributions.--Section 72 (n) (4) (B) (relating to special rule for employees without regard to section 401 (c) (1)) is amended by inserting ", and other than a distribution from a qualified individual retirement account described in section 408 (a)" after "section 404".

(4) Employee death benefits.--Section 101 (b) (2) (B) (relating to nonforfeitable rights) is

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amended by striking out "or" at the end of clause (ii), by striking out "contract." at the end of clause (iii) and inserting in lieu thereof "contract, or" and by adding at the end thereof the following new clause:

"(iv) by a qualified individual retirement account described in section 408 (a) which is exempt from tax under section 501 (a)."

(5) Qualified bond purchase plans.--Section 405 (d) (relating to taxability of beneficiary) is amended by striking out "or" after "bond purchase plan," in paragraph (1), by inserting "or from a qualified individual retirement account described in section 408 (a) which is exempt from tax under section 501 (a)," after "section 501 (a)," in paragraph (1), and by striking out the portion thereof which follows subparagraph (2) (B) and inserting in lieu thereof the following: "The basis of any bond described in subsection (b) received by a distributee from a trust described in section 401 (a) which is exempt from tax under section 501 (a) or a qualified individual retirement account described in section 408 (a) which is exempt from tax under section 501 (a) shall be determined under regulations prescribed by the Secretary or his delegate."

(6) Pension plan reserves.--Section 805 (d) (1) (relating to definition of pension plan reserves) is amended by striking out "or" at the end of subparagraph (C), by striking out "foregoing." at the end of subparagraph (D) and inserting in lieu thereof "foregoing; or", and by adding at the end thereof the following new subparagraph:

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"(E) purchased under contracts entered into with trusts which (as of the time the contracts were entered into) were deemed to be qualified individual retirement accounts described in section 408 (a) which are exempt from tax under section 501 (a)."

(7) Averagable income.--Paragraph (2) (A) of section 1302 (a) (relating to definition of averagable income) is amended by inserting "or 72 (p) (3)" after "section 72 (m) (5)".

(8) Earned income.--Section 1348 (b) (1) (relating to definition of earned income) is amended by inserting ", 72 (p) (3)" after "72 (m)".

(9) Definition of wages for purposes of Federal Insurance Contributions Act.--Section 3121 (a) (5) (defining wages) is amended by striking out "or" at the end of subparagraph (B), by striking out "405 (a);" at the end of subparagraph (C) and inserting in lieu thereof "405 (a), or" and by adding at the end thereof the following new subparagraph:

"(D) from or to a qualified individual retirement account described in section 408 (a) which is exempt from tax under section 501 (a) at the time of such payment;".

(10) Federal unemployment tax definition of wages.--Section 3306 (b) (5) (defining wages) is amended by striking out "or" at the end of subparagraphs (A) and (B), by striking out "section 405 (a);" at the end of subparagraph (C) and inserting in lieu thereof "section 405 (a), or ", and inserting at the end thereof the following new subparagraph:

"(D) from or to a qualified individual retirement account described in section 408 (a) which is exempt from tax under section 501 (a) at the time of such payment;".

(11) Definition of wages for purposes of collection of income tax at source.--Section 3401 (a) (12) (defining wages) is amended by striking out ";or" at the end of subparagraphs (A) and (B) and inserting after subparagraph (C) the following new subparagraph:

"(D) from or to a qualified individual retirement account described in section 408 (a) which is exempt from tax under section 501 (a) at the time of such payment unless such payment is made to an employee of the account as remuneration for services rendered as such employee and not as a beneficiary of the account; or".

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(f) Clerical Amendments.--

(1) The table of sections for part VII of subchapter B of chapter 1 is amended by striking out the item relating to section 219 and inserting in lieu thereof the following:

"Sec. 219. Retirement savings.
"Sec. 220. Cross references."

(2) The table of sections for part I of subchapter D of chapter 1 is amended by adding at the end thereof the following new item:

"Sec. 408. Individual retirement accounts."

(3) The table of chapters for subtitle D is amended by adding at the end thereof the following new item:

"Chapter 43. Retirement plans."

(g) Effective Date.--The amendments made by this section shall apply to taxable years ending after the date of enactment of this Act.

SEC. 4. CONTRIBUTIONS ON BEHALF OF SELF-EMPLOYED INDIVIDUALS AND SHAREHOLDER-EMPLOYEES OF ELECTING SMALL BUSINESS CORPORATIONS.

(a) Contributions on Behalf of Self-Employed Individuals.--

(1) Special limitations for self-employed individuals.--Section 404 (e) (relating to special limitations for self-employed individuals) is amended by striking out "$2,500, or 10 percent" each place it appears and inserting in lieu thereof "$7,500, or 15 percent".

(2) Excess contributions on behalf of owner-employees.--

(A) Section 401 (e) (1) (B) (iii) (relating to excess contributions on behalf of owner-employees) is amended by striking out "$2,500 or 10 percent" and inserting in lieu thereof "$7,500 or 15 percent".

(B) Section 401 (e) (1) (B) (iv) (relating to excess contributions on behalf of owner-employees) is amended by striking out "$2,500" and inserting in lieu thereof "$7,500".

(C) Section 401 (e) (3) (relating to contributions for premiums on annuity, etc., contracts) is amended by striking out "$2,500" and inserting in lieu thereof "$7,500".

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(3) Penalties applicable to certain amounts received by owner-employees.--Section 72 (m) (5) (B) (i) (relating to penalties applicable to certain amounts received by owner-employees) is amended by striking out "$2,500" and inserting in lieu thereof "$7,500".

(b) Contributions on Behalf of Shareholder-Employees of Electing Small Business Corporations.--Section 1379 (b) (1) (relating to the taxability of shareholder-employee beneficiaries) is amended--

(1) by striking out in subparagraph (A) "10 percent" and inserting in lieu thereof "15 percent", and

(2) by striking out in subparagraph (B) "$2,500" and inserting in lieu thereof "$7,500".

(c) Effective Date.--The amendments made by this section shall apply to taxable years beginning after December 31, 1972.

SEC. 5. LIMITATION ON APPLICATION OF SECTIONS 402(a) AND 403(a) IN THE CASE OF CERTAIN CONTRIBUTIONS.

(a) Amendment of Section 402.--Section 402(a) (relating to taxability of beneficiary of exempt trust) is amended--

(1) by striking out in the first sentence of paragraph (1) "and (4)" and inserting in lieu thereof ",(4), (6), and (7)", and

(2) by inserting after paragraph (5) the following new paragraphs--

"(6) Individual retirement accounts.-- In the case of an employees' trust described in section 401 (a), which is exempt from tax under section 501 (a), if the total distributions payable with respect to any employee are paid to him within 1 taxable year of the employee on account of his separation from the service other than by reason of his death, the amount of such distribution, to the extent such distribution would be includible in gross income but for the provisions of this paragraph, shall not be includible in gross income in the year paid if, within 60 days after the close of the taxable year in which such amount was paid to him, such amount is contributed by him in full to one or more qualified individual retirement accounts described in section 408(a). This paragraph shall not apply

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unless the same property received in the total distribution is contributed. The Secretary or his delegate shall prescribe such regulations as he may deem necessary to carry out the purposes of this paragraph.

"(7) Qualified plans.--

"(A) General rule.--In the case of an employees' trust described in section 401 (a), which is exempt from tax under section 501 (a), if the total distributions payable with respect to any employee are paid to him within 1 taxable year of the employee on account of his separation from the service other than by reason of his death, the amount of such distribution, to the extent such distribution would be includible in gross income but for the provisions of this paragraph, shall not be includible in gross income in the year paid if, within 60 days after the close of the taxable year in which such amount was paid to him, such amount is contributed by him in full to another employees' trust described in section 401 (a), which is exempt from tax under section 501 (a), or for the purchase of retirement annuities under an annuity plan which meets the requirements of section 404 (a) (2).

"(B) Exceptions.--This paragraph shall not apply to a distribution paid to any distributee to the extent such distribution is attributable to contributions made by or on behalf of an employee while he was an employee within the meaning of section 401 (c) (1). This paragraph shall not apply unless the same property received in the total distribution is contributed.

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"(C) Special rules.--For purposes of this title a contribution made pursuant to subparagraph (A) shall--

"(i) except as provided in clause (ii) be treated as an employer contribution made on the date contributed, and

"(ii) be treated as an employee contribution for purposes of sections 219 (b) (2), 401 (a) (12), 404, 409 (a), and 1379 (b).

"(D) Regulations.--The Secretary or his delegate shall prescribe such regulations as he may deem necessary to carry out the purposes of this paragraph."

(b) Amendment of Section 403.--Section 403 (a) is amended--

(1) by striking out in the first sentence of paragraph (1) "paragraph (2)" and inserting in lieu thereof "paragraphs (2), (4), and (5)", and

(2) by inserting after paragraph (3) the following new paragraphs--

"(4) Individual retirement accounts.--If--

"(A) an annuity contract is purchased by an employer for an employee under a plan described in paragraph (1);

"(B) such plan requires that refunds of contributions with respect to annuity contracts purchased under such plan be used to reduce subsequent premiums on the contracts under the plan; and

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"(C) the total amounts payable by reason of an employee's separation from the service other than by reason of death are paid to the payee within one taxable year of the payee, then the amount of such payments, to the extent such amounts would be includible in gross income but for the provisions of this paragraph, shall not be includible in gross income in the year paid if, within 60 days after the close of the taxable year in which such amounts are paid to him, such amounts are contributed by him in full to one or more qualified individual retirement accounts described in section 408 (a). This paragraph shall not apply unless the same property received in such payments is contributed. The Secretary or his delegate shall prescribe such regulations as he may deem necessary to carry out the purposes of this paragraph.

"(5) Qualified plans.--

"(A) General rule.--If an annuity contract is purchased by an employer for an employee under a plan described in paragraph (1), such plan requires that refunds of contributions with respect to annuity contracts purchased under such plan be used to reduce subsequent premiums on the contracts under the plan, and the total amounts payable by reason of an employee's separation from the service other than by reason of death are paid to the payee within one taxable year of the payee, then the amount of such payments, to the extent such amounts would be includible in gross income but for the provisions of this paragraph, shall not be includible in gross income in the year paid if, within 60 days after the close of the taxable year in which such amounts are paid to him, such amounts are contributed by him in full to an employees' trust described in section 401 (a), which is exempt from tax under section 501 (a), or for the purchase of retirement annuities under another annuity plan which meets the requirements of section 404 (a) (2).

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"(B) Exceptions.--This paragraph shall not apply to a distribution paid to any distributee to the extent such distribution is attributable to contributions made by or on behalf of an employee while he was an employee within the meaning of section 401 (c) (1). This paragraph shall not apply unless the same property received in the total distribution is contributed.

"(C) Special rules.--For purposes of this title a contribution made pursuant to subparagraph (A) shall--

"(i) except as provided in clause (ii) be treated as an employer contribution made on the date contributed, and

"(ii) be treated as an employee contribution for purposes of sections 219 (b) (2), 401 (a) (12), 404, 409 (a), and 1379 (b).

"(D) Regulations.--The Secretary or his delegate shall prescribe such regulations as he may deem necessary to carry out the purposes of this paragraph."

(c) Effective Date.--The amendments made by this section shall apply to taxable years ending after the date of enactment of this Act.

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SEC. 6. PROHIBITED TRANSACTIONS.

(a) Amendment of Section 503.--Section 503 is amended--

(1) by striking out subsection (a) (1) (B) and by redesignating subsection (a) (1) (C) as (a) (1) (B),

(2) by striking out "or section 401 (a)" in subsections (a) (2) and (c),

(3) by striking out subsections (d), (f), and (g) and redesignating subsection (e) as (d).

(b) Excise Tax on Prohibited Transactions.--Subtitle D (relating to miscellaneous excise taxes) is amended by adding at the end thereof the following new chapter:

"Chapter 44--Qualified Pension, Profit-Sharing, and Stock Bonus Plans

"Sec. 4971. Excise tax on prohibited transactions.

"SEC. 4971. EXCISE TAX ON PROHIBITED TRANSACTIONS.

"(a) Imposition of Initial Tax.--There is hereby imposed a tax on each prohibited transaction at the rate of 5 percent of the amount involved with respect to the prohibited transaction for each year (or part thereof) in the taxable period. The tax imposed by this paragraph shall be paid by any party in interest who participates in the prohibited transaction.

"(b) Additional Tax.--In any case in which an initial tax is imposed by subsection (a) on a prohibited transaction by a party in interest and the transaction is not corrected within the correction period, there is hereby imposed a tax equal to 200 percent of the amount involved. The tax imposed by this paragraph shall be paid by any party in interest who participated in the prohibited transaction.

"(c) Special Rule.--If more than one person is liable under subsection (a) or (b) with respect to any one prohibited transaction, all such persons shall be jointly and severally liable under such subsection with respect to such transaction.

"(d) Prohibited Transaction.--For purposes of this section, the term 'prohibited transaction' means an act which is--

"(1) described in section 14 (b) (2) of the Welfare and Pension Plans Disclosure Act of August 28, 1958, as amended and supplemented (___ Stat. ___, 29 U.S.C. ___), and not permitted under

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section 14 (c) of such Act, and

"(2) committed by a fiduciary for a trust described in section 401 (a) or 408 (a) which is exempt from tax under section 501 (a).

"(e) Other Definitions.--For purposes of this section--

"(1) Party in interest.--The term 'party in interest' means a person described in section 3 (m) of Welfare and Pension Plans Disclosure Act of August 28, 1958, as amended and supplemented (________ Stat. ________, 29 U.S.C. ________).

"(2) Taxable period.--The term 'taxable period' means with respect to any prohibited transaction, the period beginning with the date on which the prohibited transaction occurs and ending on whichever of the following is the earlier: (A) the date of mailing of a notice of deficiency pursuant to section 6212, with respect to the tax imposed by this section, or (B) the date on which correction of the prohibited transaction is completed.

"(3) Amount involved.--The term 'amount involved' means, with respect to a prohibited transaction, the greater of the amount of money and the fair market value of the other property given or the amount of money and the fair market value of the other property received. For purposes of the preceding sentence, the fair market value--

"(A) in the case of the tax imposed by subsection (a), shall be determined as of the date on which the prohibited transaction occurs; and

"(B) in the case of the tax imposed by subsection (b), shall be the highest fair market value during the correction period.

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"(4) Correction.--The terms 'correction' and 'correct' mean, with respect to a prohibited transaction, undoing the transaction to the extent possible, but in any case placing the trust in a financial position not worse than that in which it would be if the prohibited transaction had not occurred.

"(5) Correction period.--The term 'correction period' means, with respect to a prohibited transaction, the period beginning with the date on which the prohibited transaction occurs and ending 90 days after the date of mailing of a notice of deficiency with respect to the tax imposed by subsection (b) under section 6212, extended by--

"(A) any period in which a deficiency cannot be assessed under section 6213(a), and

"(B) any other period which the Secretary or his delegate determines is reasonable and necessary to bring about correction of the prohibited transaction.

"(6) Fiduciary.--The term 'fiduciary' includes a person described in section 3 (w) of the Welfare and Pension Plans Disclosure Act of August 28, 1958, as amended and supplemented, or section 7701 (a) (6).

"(f) Regulations.--The Secretary or his delegate shall prescribe such regulations as may be necessary to carry out the provisions of this section."

(c) Conforming, clerical, etc. amendments.--

(1) The table of chapters for subtitle D is amended by adding at the end thereof the following new item:

"Chapter 44. Qualified pension, profit-sharing and stock bonus plans."

(2) Section 6161 (relating to extension of time for paying tax) is amended by striking out "or 42" each place it appears in subsection (b) and inserting in lieu thereof ", 42 or 44".

(3) Section 6201 (d) (relating to assessment authority) is amended by striking out "chapter 42" and inserting in lieu thereof "chapter 42 or 44".

(4) Section 6211 (relating to definition of a deficiency) is amended by striking out "chapter 42" each place it appears therein and inserting in lieu thereof "chapter 42 or 44".

(5) Section 6212 (relating to notice of deficiency) is amended--

(i) by striking out "or chapter 42" in subsections (a) and (b) and inserting in lieu thereof "chapter 42, or chapter 44",

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(ii) by striking out "chapter 42, and this chapter" in subsection (b) and inserting in lieu thereof "chapter 42, chapter 44, and this chapter", and

(iii) by striking out "except in the case of fraud," and inserting in lieu thereof "or of chapter 44 tax, except in the case of fraud".

(6) Section 6213 (relating to restrictions applicable to deficiences and petition to Tax Court) is amended--

(i) by striking out "or chapter 42" in subsection (a) and inserting in lieu thereof ", chapter 42 or chapter 44",

(ii) by striking out the heading in subsection (e) and inserting in lieu thereof "Suspension Of Filing Period For Certain Chapter 42 or 44 Taxes.--"; by striking out "or 4945 (relating to taxes on taxable expenditures)" in subsection (e) and inserting in lieu thereof " 4945 (relating to taxes on taxable expenditures) or 4971 (relating to taxes on prohibited transactions)"; and by striking out "or 4945 (h)(2)" in subsection (e) and inserting in lieu thereof ", 4945 (h) (2), or 4971 (e) (5)".

(7) Section 6214 (c) (relating to determinations by Tax Court) is amended--

(i) by striking out the heading and inserting in lieu thereof "Taxes imposed by section 507, chapter 42, or chapter 44", and

(ii) by striking out "chapter 42" each place it appears therein and inserting in lieu thereof "chapter 42 or 44".

(8) Section 6344 (a) (1) (relating to cross references) is amended by striking out "chapter 42" and inserting in lieu thereof "chapter 42 or 44".

(9) Section 6501 (e) (3) (relating to limitations on assessment and collection) is amended by striking out "chapter 42" and inserting in lieu thereof "chapter 42 or 44".

(10) Section 6503 (relating to suspension of running of period of limitations) is amended--

(i) by striking out "and chapter 42 taxes)" in subsection (a) (1) and inserting in lieu thereof "chapter 42 taxes and chapter 44 taxes)", and

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(ii) by striking out "or section 507" in subsection (h) and inserting in lieu thereof ", section 507, or chapter 44", and by striking out "or 4945 (h) (2)" in subsection (h) and inserting in lieu thereof "4945 (h) (2), or 4971 (e) (5)".

(11) Section 6512 (relating to limitations in case of petition to Tax Court) is amended by striking out "chapter 42" each place it appears therein and inserting in lieu thereof "chapter 42 or 44".

(12) Section 6601 (d) (relating to interest on underpayment, nonpayment, or extensions of time for payment of tax) is amended by striking out "chapter 42" and inserting in lieu thereof "chapter 42 or 44".

(13) Section 6653 (c) (relating to failure to pay tax) is amended by striking out "chapter 42" each place it appears therein and inserting in lieu thereof "chapter 42 or 44".

(14) Section 6659 (b) (relating to applicable rules) is amended by striking out "chapter 42" and inserting in lieu thereof "chapter 42 or 44".

(15) Section 6676 (b) (relating to failure to supply identifying numbers) is amended by striking out "chapter 42" and inserting in lieu thereof "chapter 42 or 44".

(16) Section 6677 (b) (relating to failure to file information returns with respect to certain foreign trusts) is amended by striking out "chapter 42" and inserting in lieu thereof "chapter 42 or 44".

(17) Section 6679 (b) (relating to failure to file returns as to organization or reorganization of foreign corporations and as to acquisitions of their stock) is amended by striking out "chapter 42" and inserting in lieu thereof "chapter 42 or 44".

(18) Section 7422 (g) (relating to civil actions for refund) is amended--

(i) by striking out "chapter 42" in the heading thereof and inserting in lieu thereof "chapter 42 or 44", and

(ii) by striking out "or section 4945 (b) (relating to additional taxes on taxable expenditures)" in paragraph (1) and inserting in lieu thereof "section 4945 (b) (relating

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to additional taxes on taxable expenditures), or section 4971 (relating to tax on prohibited transactions)", and

(iii) by striking out "or 4945" in paragraphs (2) and (3) and inserting in lieu thereof "4945 or 4971".

(d) Effective Date.-- The amendments made by this section shall be effective on and after the day after the date of enactment of this Act.

SEC. 7. MISCELLANEOUS PROVISIONS.

(a) Penalties Applicable to Forfeitures Received by Owner-Employees.--Section 72 (m) (5) (A) (i) is amended by striking out "while he was an owner-employee," and inserting in lieu thereof", or forfeitures credited to his account or applied for his benefit, while he was an owner-employee,".

(b) Amendment to section 401 (a) (3) (A).--Section 401 (a) (relating to requirements for qualification) is amended by striking out paragraph (3) (A) and inserting in lieu thereof:

"(A) 70 percent or more of all the employees, or 80 percent or more of all the employees who are eligible to benefit under the plan if 70 percent or more of all the employees are eligible to benefit under the plan, excluding in each case employees who are included in a unit of employees covered by an agreement which the Secretary or his delegate finds to be a collective bargaining agreement which does not provide that such employees are to be included, employees who have been employed not more than a minimum period prescribed by the plan, not exceeding 5 years, employees whose customary employment is for not more than 20 hours in any one week, and employees whose customary employment

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is for not more than 5 months in any

calendar year, or".

(c) Plans Benefiting Self-Employed Individuals.--Section 401 (c) (relating to definitions and rules relating to self-employed individuals and owner-employees) is amended by adding at the end thereof the following new paragraph:

"(6) Additional requirements for qualification of trusts and plans benefiting self-employed individuals.--A trust forming part of a pension or profit-sharing plan which provides contributions or benefits for employees some or all or whom are employees within the meaning of paragraph (1) shall constitute a qualified trust only if--

"(A) under the plan, forfeitures attributable to contributions made on behalf of an employee other than an employee within the meaning of paragraph (1) may not inure to the benefit of any individual who, at any time during the period beginning with the taxable year for which the contribution is made and ending with the taxable year during which the forfeiture occurs, is an employee within the meaning of paragraph (1), and

"(B) in the case of a defined benefit pension plan, a separate account is maintained with respect to all participants under the plan who are not employees within the meaning of paragraph (1) and another separate account is maintained with respect to all participants under the plan who are employees within the meaning of paragraph (1)."

(d) Trustee of a Trust Benefiting An Owner-Employee.-- Section 401 (d) (relating to additional requirements for qualification of trusts and plans benefiting owner-employees)

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is amended by striking out the first sentence of paragraph (1) and inserting in lieu thereof:

"(1) In the case of a trust which is created on or after the date of the enactment of this subsection, or which was created before such date but is not exempt from tax under section 501 (a) as an organization described in subsection (a) on the day before such date, the assets thereof are held in trust by, or in custody of, a bank or other person who demonstrates to the satisfaction of the Secretary or his delegate that the manner in which he will hold or have custody of such assets will be consistent with the requirements of this section. Notwithstanding the requirements of the preceding sentence, a person (including the employer) other than the trustee or custodian so holding plan assets may be granted, under the trust instrument, the power to control the investment of the trust funds either by directing investments (including reinvestments, disposals, and exchanges) or by disapproving proposed investments (including reinvestments, disposals, or exchanges)."

(e) Certain Custodial Accounts.--Section 401 (relating to pension, profit-sharing, and stock bonus plans) is amended by striking out subsection (f) and inserting in lieu thereof:

"(f) Certain Custodial Accounts.--For purposes of this title, a custodial account shall be treated as a qualified trust under this section provided that--

"(1) such custodial account would, except for the fact that it is not a trust, constitute a qualified trust under this section;

"(2) the custodian is a bank (as defined in subsection (d) (1)) or other person who demonstrates to the satisfaction of the Secretary or his delegate that the manner in which he will have custody of such assets will be consistent with the requirements of this section; and

"(3) the assets of such custodial account are held in the name of the custodian or his nominee.

For purposes of this title, in the case of a custodial account treated as a qualified trust under this section by reason of the preceding sentence, the custodian of such account shall be treated as the trustee thereof."

(f) Excess Contributions.--Section 401 (e) (1) (B) is amended by striking out clause (ii) and inserting in lieu thereof:

"(ii) with respect to any plan other than a defined benefit plan, the amount of any contribution made by any

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owner-employee (as an employee) at a rate which exceeds the rate of contributions permitted to be made by employees other than owner-employees;"

(g) Amendments to Section 404 (a).--Section 404 (a) (relating to deduction for contributions of an employer to an employees' trust, etc.) is amended--

(1) by striking out paragraph (1) (A),

(2) by striking out paragraph (1) (B) and (C) and inserting in lieu thereof:

"(B) the amount necessary to provide with respect to all of the employees under the trust the remaining unfunded cost of their past and current service credits distributed as a level amount, or a level percentage of compensation, over the remaining future service of each such employee, as determined under regulations prescribed by the Secretary or his delegate, but if such remaining unfunded cost with respect to any three individuals is more than 50 percent of such remaining unfunded cost, the amount of such unfunded cost attributable to such individuals shall be distributed over a period of at least 5 taxable years, or

"(C) in lieu of the amount allowable under subparagraph (B), an amount equal to the normal cost of the plan, as determined under regulations prescribed by the Secretary or his delegate, plus, if past service or other supplementary pension or annuity credits are provided by the plan, an amount not in excess of 10 percent of the cost which would be required to completely fund or purchase such pension or annuity credits as of the date when they are included in the plan, as determined under regulations

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prescribed by the Secretary or his delegate, except that in no case shall a deduction be allowed for any amount (other than the normal cost) paid in after such pension or annuity credits are completely funded or purchased."

(3) by adding immediately after paragraph (1) (D) the following new sentence:

"The limitations under subparagraphs (B) and (C) shall not apply with respect to the amount of a contribution made to or under a pension plan to the extent such contribution does not exceed the minimum funding standard described in section 401 (a) (7)."

(4) by striking out paragraph (6) and inserting in lieu thereof:

"(6) Time when contributions deemed made.--For purposes of paragraphs (1), (2), and (3), a taxpayer shall be deemed to have made a payment on the last day of the preceding taxable year if the payment is on account of such taxable year and is made not later than the time prescribed by law for filing the return for such taxable year (including extensions thereof)."

(5) by striking out subsection (a) (7), and inserting in lieu thereof:

"(7) Limit of deduction.--If amounts are deductible under paragraphs (1) and (3), or (2) and (3), or (1), (2), and (3), in connection with 2 or more trusts, or one or more trusts and an annuity plan, the total amount deductible in a taxable year under such trusts and plans shall not exceed the greater of 25 percent of the compensation otherwise paid or accrued during the taxable year to the persons who are the beneficiaries of the trusts or plans, or the amount of contributions made to or under the trusts or plans to the extent such contributions do not exceed the minimum funding standard described in section 401 (a) (7), for the plan year which ends with or within such taxable year. In addition, any amount paid into such trust or under such annuity plans in any taxable year in excess of the amount allowable with respect to such year under the preceding provisions of this paragraph shall be deductible in the suceeding taxable years in order of time, but the amount so deductible under

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this sentence in any one such succeeding taxable year together with the amount allowable under the first sentence of this paragraph shall not exceed the greater of 25 percent of the compensation otherwise paid or accrued during such taxable year to the beneficiaries under the trusts or plans, or the amount of contributions made to or under the trusts or plans to the extent such contributions do not exceed the minimum funding standard described in section 401 (a) (7) for the plan year which ends with or within such taxable year. This paragraph shall not have the effect of reducing the amount other-wise deductible under paragraphs (1), (2), and (3), if no employee is a beneficiary under more than one trust, or a trust and an annuity plan",

(h) Inclusion of Certain Employer Contributions in Gross Income.--Part I of subchapter D of chapter 1 (relating to pension, etc., plans) as amended by section 3 (b) of this Act is further amended by adding at the end thereof the following new section:

"SEC. 409. INCLUSION OF CERTAIN EMPLOYER CONTRIBUTIONS IN GROSS INCOME.

"(a) Inclusion of Contributions in Gross Income.--Notwithstanding the provisions of section 402 (relating to taxability of beneficiary of employees' trust), section 403 (relating to taxation of employee annuities), or section 405 (d) (relating to taxability of beneficiaries under qualified bond purchase plans), an individual shall include in gross income, for his taxable year in which or with which the taxable year of his employer ends, the amount equal to the excess of--

"(1) the amount of the contributions made on his behalf by the employer during the taxable year of the employer (including amounts deemed to be paid during such year under section 404 (a) (6)) to or under a money purchase pension plan, over

"(2) 20 percent of such individual's compensation otherwise paid or accrued by him from such employer

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during the employer's taxable year.

In any taxable year of an individual in which he is covered under two or more money purchase pension plans maintained by an employer, the amount includible in gross income shall be the amount by which the total of such contributions exceeds 20 percent of the compensation received or accrued by such individual during the taxable year of his employer.

"(b) Treatment of Amounts Included in Gross Income.--Any amount included in the gross income of an individual under subsection (a) shall be treated as consideration for the contract contributed by the individual for purposes of section 72 (relating to annuities).

"(c) Deduction for Amounts not Received as Benefits.--If--

"(1) Amounts are included in the gross income of an individual under subsection (a), and

"(2) the rights of such individual (or his beneficiaries) under the plan terminate before payments under the plan which are excluded from gross income equal the amounts included in gross income under subsection (a),

then there shall be allowed as a deduction, for the taxable year in which such rights terminate, an amount equal to the excess of the amounts included in gross income under subsection (a) over such payments."

(i) Conforming and clerical amendments.--

(1) Conforming amendment.--Section 62 (relating to definition of adjusted gross income) as amended by section 3 (e) (2) of this Act is further amended by adding after paragraph (10) the following new paragraph:

"(11) Money purchase pension plans.-- The deduction allowed by section 409 (c)."

(2) Clerical amendment.--The table of sections for Part I of subchapter D of chapter 1 is amended by adding at the end thereof the following new item:

"Sec. 409. Inclusion of certain employer contributions in gross income."

(j) Effective Dates.--The amendments made by this section (other than the amendment made by subsection (h)) shall be effective on and after the day after the date of enactment of this Act. The amendment made by subsection (h) shall apply with respect to taxable years of an employer beginning after December 31, 1973.

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GENERAL EXPLANATION

RETIREMENT BENEFITS TAX ACT

1. Introduction.

Since 1942 the Internal Revenue Code has accorded special tax benefits to qualified retirement plans established by employers for the benefit of their employees and the beneficiaries of their employees. To insure that benefits are provided under these plans for a broad range of the employees of the sponsoring employer and not merely for a small group of select employees, the availability of these special tax benefits is conditioned upon the plan's meeting certain statutory requirements.

Private retirement plans form an important part of the total framework of income maintenance for older Americans. As such, it is appropriate to provide tax incentives to encourage employers to establish these plans and thus provide for their employees' post-retirement needs. In so doing the employer performs a function and assumes a burden which otherwise might be thrust upon society at large. Private retirement plans are a significant supplement to the social security system as a source of income for retired and disabled Americans and their dependents. Because private retirement plans are established by individual employers, they can be shaped to respond to unique needs and situations in a manner that a public system covering tens of millions of individuals cannot.

The experience of the past 30 years has demonstrated that while the private retirement system has the capacity to deal with an important social problem through individual initiative, changes in existing law are needed. In the first place, recent surveys indicate that, in spite of the incentives provided by existing law, approximately one-half of the non-agricultural labor force does not now participate in private retirement plans and that coverage is not likely to expand significantly under existing conditions. Moreover, overly restrictive requirements for participation in, or acquisition of vested benefits under, private retirement plans have resulted in effectively denying to millions of employees the full benefits of the private retirement system. Special limitations upon contributions on behalf of self-employed individuals and requirements for the plans in which they participate are so restrictive that they have created an artificial preference for the corporate form over other business forms which might be more suitable or desirable for a particular enterprise.

2. Eligibility Requirements. (Section 2 of Bill)

A. Present Law.

The Internal Revenue Code does not now contain any specific requirements concerning eligibility conditions based on age or service that may be included in a qualified private retirement plan established by a

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corporate employer. Existing administrative practice does permit such a plan to provide that participation in the plan is limited to employees who have attained a specified age or have been employed for a specified number of years if the effect of such provisions is not discrimination in favor of officers, shareholders, supervisory employees, or highly compensated employees. Likewise, such a plan may exclude from participation employees who have attained a specified age close to retirement when they otherwise become eligible to participate in the plan. On the other hand, the Internal Revenue Code specifically requires that a qualified plan established by an unincorporated business in which an owner-employee (i.e., a sole proprietor or a partner with a greater than 10 percent interest in capital or income) participates must provide that no employee with 3 or more years of service may be excluded from the plan.

B. Proposal.

Reasonable service or age requirements are an appropriate means of preventing the dissipation of plan assets. The benefits earned by employees with short periods of service are usually small, both in absolute terms and in relation to the administrative costs attributable to these benefits. Overly restrictive requirements may, however, result in the arbitrary exclusion of employees from participation in private retirement plans and thereby frustrate the effective functioning of the private retirement system.

The proposed bill would, therefore, provide that a qualified private retirement plan not be permitted to require, as a condition of participation, that an employee have completed a period of service with the employer in excess of 3 years, that he have attained an age in excess of 30 years, or that he not have attained an age which is greater than the normal retirement age under the plan reduced by 5 years.

In the case of a qualified plan in which self-employed individuals who are owner-employees participate, the bill would provide that the plan not be permitted to require, as a condition of participation, that the employee have completed more than 1 year of service with the employer if his then age is 35 years or greater, more than 2 years of service if his then age is 30 years or greater but less than 35 years, or more than 3 years of service if his then age is less than 30 years.

C. Effective Date.

These rules would be effective upon the day after the date of enactment with respect to all private retirement plans established after December 31, 1972. In the case of plans in effect on December 31, 1972, these rules would apply to plan years beginning after December 31, 1974, except that in the case of plans which are collectively bargained, these rules would not apply to plan years ending before the expiration of the collective bargaining agreement in effect on December 31, 1972.

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3. Vesting Requirements. (Section 2 of Bill)

A. Present Law.

There is no generally applicable requirement under existing law that a participant in a qualified private retirement plan have at any time before he attains normal retirement age a nonforfeitable right to receive his accrued benefit under the plan. However, the failure to provide pre-retirement vesting is taken into account by the Internal Revenue Service in determining whether a plan satifies the statutory requirement that it not discriminate in favor of officers, shareholders, supervisory employees, or highly compensated employees, and in appropriate circumstances the Service will not issue such a determination if a plan does not provide pre-retirement vesting. Neither the circumstances in which pre-retirement vesting is required nor the degree of such vesting is well defined, and considerable variation has arisen. The Internal Revenue Code requires that a plan established by an unincorporated business in which an owner-employee participates must provide that each participant have an immediately nonforfeitable interest in the contributions made on his behalf under the plan.

B. Proposal.

Some measure of pre-retirement vesting is essential if the private retirement system is to exist as a functioning and effective supplement to the social security system. This is especially true in view of our highly mobile labor force. An individual whose participation in a private retirement plan terminates before his rights in his benefits accrued under the plan have become nonforfeitable has, for all practical purposes, not really participated in the plan. In addition, pre-retirement vesting is needed to reinforce the non-discrimination requirements of existing law in cases where most of the employer contributions under a plan are made on behalf of participants with a proprietary interest in the employer.

The proposed bill would, therefore, require a qualified private retirement plan to meet new minimum pre-retirement vesting standards. A participant's rights in his accrued benefits derived from his own contributions would have to be fully vested at all times. His rights in at least 50 percent of his accrued benefits derived from employer contributions would have to be nonforfeitable when the sum of his age and his years of participation in the plan equals or exceeds 50 years, and this percentage would have to increase ratably to 100 percent over the next succeeding 5 plan years. Under this rule, the rights of older employees would vest more rapidly than the rights of younger employees, reflecting the fact that an older employee has less of an opportunity to earn a reasonable pension with a new employer or to save for his retirement.

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To avoid providing a disincentive against hiring older workers, the proposed bill would permit a qualified plan to provide that an employee's rights in his accrued benefits derived from employer contributions remain forfeitable until he has completed 3 years of continuous service with the employer. The plan would have to provide that upon completing this period of service his rights in at least 50 percent of his accrued benefits derived from employer contributions are nonforfeitable, and this percentage would be required to increase ratably to 100 percent over the next succeeding 5 plan years.

To avoid additional costs for defined benefit pension plans in difficult financial condition, pre-retirement vesting would not be required with respect to benefits accrued for any plan year for which benefit payments to retired participants exceed benefit accruals by active participants and the present value of accrued liabilities to retired and active participants exceeds the fair market value of plan assets. If, however, the plan is amended to provide greater benefits during a plan year when this exception would otherwise be operable, the exception would not apply with respect to that plan year, any succeeding plan years, or the 5 plan years preceding such year in which the plan is amended. This exception is designed to provide relief for defined benefit pension plans that have a large number of retired participants in relation to the number of active participants and that are not fully funded. These plans are typically found in industries where employment is declining and where any increase in pension costs would be especially burdensome.

In the case of qualified private retirement plans in which self-employed individuals who are owner-employees participate, an employee's rights in at least 50 percent of his accrued benefits derived from employer contributions would be required to be nonforfeitable when the sum of his age and his years of participation equal or exceeds 35 years. His rights in the remaining percentage of such accrued benefits would be required to become nonforfeitable not less rapidly than ratably over the next succeeding 5 plan years of participation.

C. Effective Dates.

Generally, these rules are effective with respect to benefits accrued after the date of enactment. However, in the case of plans in existence on December 31, 1972, the rules would generally apply to benefits accrued for a plan year beginning after January 1, 1975. In the case of collectively bargained plans, however, these rules would not apply to benefits accrued during plan years ending before the expiration of the collective bargaining agreement in effect on December 31, 1972. In applying these rules, all participation in the plan (whether before or after the applicable effective dates) would be considered in

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determining whether the sum of the employee's age and his years of participation equal 50 years or 35 years, whichever is applicable.

4. Deduction for Personal Savings for Retirement. (Section 3 of Bill)

A. Present Law.

Under present law, employer contributions on behalf of an employee to a private retirement plan satisfying the qualification requirements of the Internal Revenue Code and investment earnings on these contributions are generally not subject to tax until paid to the employee or his beneficiaries, even though the employee's right to receive these amounts becomes nonforfeitable before payment is made. Employee contributions to such a plan are subject to tax currently (i.e., no deduction or exclusion is allowable), but investment earnings on these contributions are not subject to tax until distributed or paid to the employee. Amounts saved by an individual for his retirement outside the scope of a qualified plan are not deductible or excludable from gross income, and investment earnings on such amounts are subject to tax currently.

B. Proposal.

The effect of existing law relating to saving for retirement purposes is to discriminate substantially against individuals who do not participate in qualified private retirement plans or who participate in plans providing inadequate benefits. Frequently, this situation is the result of a unilateral decision of the employer not to establish a private retirement plan for its employees or not to improve benefits under an existing plan. Many other individuals, because of the nature of their occupations, never have a sufficient period of service with any one employer to accrue adequate retirement benefits.

To remedy this inadequacy in existing law, the proposed bill would allow individuals a deduction in computing adjusted gross income for amounts contributed to qualified individual retirement plans which they have established or to qualified private retirement plans established by their employers. In addition, investment earnings on amounts contributed to individual retirement plans would be excludable from gross income.

In the case of an individual who does not participate in an employer-financed private retirement plan, the amount deductible would be limited to 20 percent of earned income or $1,500, whichever is the lesser. In the case of a married couple, each spouse would be eligible to claim this deduction, and the limit would be applied separately to each spouse. Thus, if a husband had earned income of $12,000 and his wife had earned income of $7,000, the maximum deduction for him would be $1,500, and the maximum deduction for her would be $1,400, permitting a total deduction of $2,900.

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If an individual participates in an employer-financed plan, the amount deductible, after application of the $1,500 or 20 percent of earned income limitation, would be further reduced to reflect employer contributions to such plan on his behalf. For this purpose, an individual would be permitted to assume that employer contributions on his behalf are 7 percent of his earned income. He could show, however, that a lesser amount had been contributed on his behalf. Such amount would be determined in accordance with Treasury Department regulations on the basis of the particular facts and circumstances of his situation.

In the case of individuals who have earned income which is not covered by the social security system or the railroad retirement system, the limitation on the deduction would be further reduced by the amount of tax that would be imposed under the Federal Insurance Contributions Act if that income were covered by the social security system. This reflects the fact that taxes imposed on employees under the Federal Insurance Contributions Act are not deductible.

No deduction would be allowed with respect to amounts contributed to a qualified individual retirement plan or a qualified private retirement plan by an individual who has attained the age of 70 1/2 years.

Under the proposed bill, an individual would be allowed to invest these amounts in a broad range of assets, including stocks, bonds, mutual fund shares, annuity and other life insurance contracts, face-amount certificates, and savings accounts with financial institutions.

While these assets could not be commingled with other property, they could be held in custodial accounts, and a taxpayer would not be required to establish a trust for this purpose.

To insure that amounts contributed to individual retirement programs and investment earnings on such amounts are used only for retirement purposes, withdrawals before the individual attains age 59 1/2 would not qualify for the general income averaging provided under existing law and would also be subject to an additional penalty tax of 30 percent of the amount withdrawn. This penalty would not apply, however, if the taxpayer has died or has become disabled or if the amount withdrawn is deposited in another individual retirement account within 60 days. This last exception is designed to permit transfer of individual retirement amounts from one type of investment to another, or from one trustee or custodian to another.

Moreover, withdrawals would be required to begin by the time the taxpayer reaches age 70 1/2 and would have to be sufficiently large so that the entire accumulation will be distributed over his life expectancy or the combined life expectancy of the taxpayer and his spouse. If sufficient amounts are not withdrawn to meet these rules after age 70 1/2, an annual excise tax of 10 percent would be imposed. The 10 percent excise tax would be applied against the assets in the account multiplied by a fraction, the numerator of which is the minimum amount required to be distributed for the year reduced by the amount actually distributed, and the denominator of which is the minimum amount required to be distributed for the year.

To insure compliance with the foregoing requirements, trustees, custodians, and other persons having control of amounts deducted under the proposal would be required to submit annual reports to the Internal Revenue

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Service similar to those which are now required of trustees of plans benefitting self-employed individuals who are owner-employees.

C. Effective Date.

This proposal would apply to taxable years ending after the date of enactment of the proposed bill.

5. Contributions on Behalf of Self-Employed Individuals and Shareholder-Employees of Electing Small Business Corporations. (Section 4 of Bill)

A. Present Law.

The Internal Revenue Code now limits the deductible contribution to a qualified private retirement plan on behalf of a self-employed individual to the lesser of 10 percent of earned income or $2,500. In certain circumstances, an additional $2,500 nondeductible contribution may be made. Penalties are imposed if excessive contributions are made and are not returned. With respect to a shareholder-employee of an electing small business corporation, no limit is imposed on the amount that may be contributed on his behalf, but if the contribution exceeds the lesser of 10 percent of compensation or $2,500, the excess is includible in his gross income.

The amount which may be contributed as a result of the limitation on contributions on behalf of self-employed individuals has had a number of undesirable effects. In the first place, while the limitation applies by its terms only to contributions on behalf of self-employed individuals, as a matter of practice, it applies as well to their employees with the result that the contributions on their behalf may be less than the contributions which would otherwise be contributed on their behalf. Furthermore, the inadequacy of the amount presently deductible creates an artificial incentive for the incorporation of businesses and professional practices.

B. Proposal.

The proposed bill would increase the limitation on deductible contributions to a qualified private retirement plan on behalf of a self-employed individual to an amount which is the lesser of $7,500 or 15 percent of his earned income.

The limitation on excludable contributions on behalf of shareholder-employees of electing small business corporations would likewise be increased to an amount which is the lesser of $7,500 or 15 percent of compensation.

C. Effective Date.

These increased limitations would apply to taxable years beginning after December 31, 1972.

6. Treatment of Lump-Sum Distributions Recontributed to Qualified Retirement Plans. (Section 5 of Bill)

A. Present Law.

Under existing law, if a lump sum distribution is made under a qualified private retirement plan, the distribution is subject to income taxation even if the distribution is received by an employee before his retirement and is set aside by him for his future retirement security.

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Often, if an employee leaves his employer for a new employer under circumstances where he has a vested right to retirement benefits from his first employer, his retirement benefits will be distributed to him in a lump sum at the time he leaves his first employer. This is convenient for the employer, because he thereby avoids continuing to administer funds for the benefit of a former employee. However, because of the income tax payable at that time, the employee will have a smaller fund available for his retirement years. On the other hand, an employee who, throughout his working career, is employed by a single employer, will typically avoid any tax on his retirement funds until actual retirement. Such a result creates an inequity between employees who work for only one employer and employees who are more mobile.

B. Proposal.

Under the proposed bill, an individual would not be subject to tax upon receipt of a lump-sum distribution from a qualified retirement plan if the individual reinvests the funds in a qualified individual retirement account or a qualified employer-sponsored retirement plan within 60 days after the close of the employee's taxable year. If the individual receives the distribution in property, other than cash, he would have to reinvest the same property in order to take advantage of this tax deferral opportunity. The proposal would encourage retirement savings by enabling an employee to defer taxation of an amount received as a lump-sum distribution until retirement.

C. Effective Date.

These rules would apply to taxable years ending after the date of enactment.

7. Prohibited Transactions. (Section 6 of Bill)

A. Present Law.

Under present law, a trust forming part of a qualified private retirement plan is denied exemption from taxation if it engaged in a prohibited transaction. Within this context, a prohibited transaction usually involves a transaction at less than arm's length, between the trust and the employer who established the plan, under circumstances which may result in the diversion or dissipation of the trust assets required to be held for the exclusive benefit of the employees covered by the plan. If exemption from taxation is denied to the trust, other special benefits under the Code relating to qualified plans are also denied. Special benefits affecting employees include deferral of the taxation of non-forfeitable amounts contributed on their behalf by employers, and special averaging provisions available with respect to lump sum distributions.

The denial of the trust's exemption from taxation, accompanied by the denial of the employee's exclusions for employer contributions and the employer's current deduction, has not been a satisfactory deterrent in discouraging participation in a prohibited transaction. An employer, in need of working capital or in failing financial condition, may find it advantageous to forego a deduction for any contribution made under a plan

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in order to divert trust assets to his own use. In far too many instances, the fiduciary for the trust acquiesces in the employer's demand to divert assets to the detriment of the employees.

In many cases, the consequences of the denial of exemption for the trust fall upon innocent rank-and-file employees covered. For example, if a trust is disqualified because of an act of the trustee and the employer, any income tax imposed upon a disqualified plan may diminish the funds available to provide the retirement benefit promised to the employee. Furthermore, because of the prohibited act in which he did not participate, the employee may have to include in his gross income the contributions made on his behalf in a taxable year before he actually receives the amounts attributable to the contributions.

B. Proposal.

Any sanction against prohibited transactions should be directed only toward those who participate in them. An employee who is a stranger to the transaction should not be penalized through denial of the special tax benefits to which he would be entitled but for the transaction of another. An effective sanction against prohibited transactions would prevent the wrongful dissipation of plan assets.

The proposed bill would impose excise taxes on the amount involved in a prohibited transaction. The taxes would be paid by any party in interest (*e.g.*, the trustee, employer, or officers of the employer, and other persons having a close relationship to the trust or employer) who are participants in the transaction. An initial tax would be imposed at the rate of 5 percent of the amount involved in the prohibited transaction. An additional tax would be imposed at the rate of 200 percent if the transaction is not corrected within 90 days after notice of deficiency for such tax is mailed. An additional period for correction of the transaction may be allowed if reasonable and necessary to bring about correction of the prohibited transaction. These provisions are similar to taxes imposed by the Tax Reform Act of 1969 with respect to private foundations.

Under the proposed bill, a prohibited transaction would be any act which is prohibited under the Administration's proposed Employee Benefits Protection Act. Thus, there would be a uniform meaning of a prohibited transaction for purposes of the tax law and the law relating to fiduciary standards. Furthermore, the effect of a uniform definition of the term would be to extend the fiduciary standards to qualified private retirement plans that are not covered, for administrative and other reasons, under the Employee Benefits Protection Act (e.g., plans covering fewer than 26 participants).

C. Effective Date.

These provisions would be effective on the day after the date of enactment.

8. Minimum Funding Standard (Section 2 of Bill)

A. Present Law.

Under present law, in order to prevent full vesting of all accounts, a defined benefit pension plan must be funded in an amount at least equal

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to the sum of normal cost and interest on the unfunded liability. Thus there is no requirement that unfunded liability ever be reduced.

B. Proposal.

The proposed bill would provide a higher minimum standard, in order to increase the security of participants. The proposed standard would, in general, require defined benefit pension plans to be funded in an amount at least equal to the sum of normal cost, interest on the unfunded liability, and 5% of the unfunded vested liability. This standard is similar to the standard widely used by accountants to compute the minimum pension cost for accounting purposes.

9. Miscellaneous Provisions.

A. Premature Distributions to Owner-Employees. (Section 7(a) of Bill)

Under existing law, certain penalties are applicable to distributions made to an owner-employee before he attains the age of 59-1/2 years but only to the extent the distributions are attributable to contributions made on his behalf. Under the proposed bill, this provision is made applicable to forfeitures which may arise under the rule of 35 vesting standard.

B. Employees Covered under Collective Bargaining Agreement (Section 7(b) of Bill)

Under existing law, a qualified private retirement plan must cover (1) specified percentages (generally, 70 percent of employees or 80 percent if 70 percent are eligible to participate) of employees or (2) such employees as qualify under a classification that does not discriminate in favor of officers, shareholders, or highly compensated employees. In making the computation under the percentage requirement, certain short service, part-time and seasonal employees are excluded. In many cases, employees covered under a collective bargaining agreement prefer current compensation or other benefits to the benefits provided under a qualified plan. Thus, many employers are unable to establish a plan for other employees because the percentage requirement cannot be satisfied if the bargaining unit employees are not covered. Under the proposed bill, employees who are included in a unit of employees covered by a collective bargaining agreement may be excluded for purposes of satisfying the coverage requirements unless such agreement provides that the employees are to be included in the plan.

C. Plans Benefiting Self-Employed Individuals. (Section 7(c) of Bill)

Under existing law, there is full and immediate vesting in contributions or benefits made under a plan covering an owner-employee. In a plan which does not cover any owner-employee, forfeitures may not benefit self-employed individuals. Under the proposed bill, forfeitures attributable to contributions made on behalf of common law employees (which may arise under the rule of 35 or 50 vesting standards) may not inure to the benefit of self-employed individuals. However, forfeitures by a self-employed individual may inure to the benefit of other participants, whether or not those other participants are self-employed.

D. Trustee of a Trust Benefiting an Owner-Employee. (Section 7(d) of Bill)

Under existing law, the trustee for a trust forming part of a retirement plan benefiting an owner-employee must be a bank. Under the proposed bill, any person, who demonstrates to the satisfaction of the Secretary or his delegate that he will hold the trust assets in a manner consistent

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with the requirements for qualification, may be a trustee for a plan benefiting an owner-employee. This provision is identical with the corresponding requirement the bill would establish with respect to individual retirement accounts.

E. Custodial Accounts. (Section 7 (e) of Bill)

Under existing law, a custodial account may be treated as a trust if the custodian is a bank and investment of the funds is either solely in mutual funds or solely in annuity contracts. Under the proposed bill, a person other than a bank may be a custodian if he demonstrates that he will hold the assets consistently with the requirements for qualification of a trust. The restrictions relating to investment would be eliminated. This provision is identical with the corresponding requirement the bill would establish with respect to individual retirement accounts.

F. Time when Contributions Deemed Made. (Section 7 (g) of Bill)

Under existing law, a taxpayer who reports his income on an accrual basis may deduct the contributions made after the close of a taxable year on account of that year, if they are made at any time prior to filing a tax return for that year. In many cases, it is impossible to determine the amount to be contributed under the plan for a year by the end of that year. Under the proposed bill, the rule applicable to accrual basis taxpayers would be extended to cash basis taxpayers.

G. Inclusion of Certain Employer Contributions in Gross Income. (Section 7 (h) of Bill)

Under existing law, there is no limit upon the amount contributed under a qualified private pension plan on behalf of an employee, other than a shareholder-employee of an electing small business corporation, which may be excluded from gross income by the employee. Furthermore, there is no meaningful limitation on the deductible amount which may be contributed by an employer under a money purchase pension plan. Under the proposed bill, an employee would be required currently to include in his gross income the amount of employer contributions made on his behalf under a money purchase pensio plan to the extent in excess of 20 percent of his compensation. Any amount included in gross income would be considered as part of the employee's investment in the contract for purposes of computing the taxable amount of a distribution from the plan to the employee. However, these amounts would be considered to be made by the employer for purposes of qualification of the plan. A deduction would be allowed for amounts included in gross income that are not received before all rights under the plan terminate.

H. <u>Defined Benefit Pension Plans Benefiting Self-Employed Individuals.</u> (Section 7 (a), (c), (f) of Bill)

Under existing law, defined benefit pension plans are permitted for self-employed individuals. However, these plans are seldom established because of the low limits on deductible contributions and because separate accounts are required to be maintained for each self-employed individual to assure that forfeitures do not inure to his benefit. Defined benefit pension plans would be more feasible for self-employed individuals under the proposed bill because of the increased deductible limit of $7,500 and because forfeitures by one self-employed individual would be permitted to inure to the benefit of other self-employed individuals. Under the proposed bill, a separate account would be required to be maintained with respect to the self-employed individuals covered under a defined benefit pension plan. Another separate account would be required to be maintained with respect to the common law employees covered under the plan.

I. Voluntary Contributions by Owner-Employees. (Section 3 (c) of Bill)

Under existing law, amounts received from a retirement plan before retirement are tax-free to all participants other than owner-employees (self-employed persons who own 10% or more of the business) to the extent of all non-deductible amounts contributed to the plan by the participants. Under the proposed bill owner-employees would have the same rights upon withdrawal of non-deductible contributions as all other participants.

10. Major Changes from Individual Retirement Benefits Act of 1971.

The proposed bill is a revised and expanded version of the Individual Retirement Benefits Act of 1971, a bill proposed by the Administration in the 92nd Congress. The major changes from the earlier bill are as follows:

A. Minimum Funding Standard.

The earlier proposed bill did not deal with funding.

B. Accrued Benefits.

The earlier proposed bill did not define "accrued benefits" for vesting purposes.

C. Vesting.

Provisions in the earlier proposed bill for special vesting in lieu of the rule of 50 intended to prevent discrimination in favor of officers, etc., of closely held partnerships and corporations have been dropped because of administrative complexities.

D. Contributions on Behalf of Self-Employed.

The earlier proposed bill provided that deductible contributions on behalf of self-employed individuals and shareholder-employees of electing small business corporations could not exceed 15% of so much of earned income as does not exceed $50,000. This proposed bill provides that deductible contributions are limited to the lesser of $7,500 or 15% of all earned income.

E. Reinvestment of Lump-Sum Distributions.

The earlier proposed bill did not permit tax-free reinvestment of lump-sum distributions.

F. Prohibited Transactions.

The earlier proposed bill did not change the law concerning prohibited transactions.

G. Bargaining Unit.

The earlier proposed bill did not deal with collective bargaining unit employees.

H. Forfeitures.

The provision prohibiting the allocation of a forfeiture of a common law employee's benefits to a self-employed individual is new.

I. Trustees and Custodians.

The earlier proposed bill did not change the rules concerning trustees and custodians of existing qualified retirement plans.

J. Money Purchase Pension Plans.

The provision requiring an employee to include in gross income amounts contributed on his behalf under a purchase money pension plan to the extent in excess of 20 percent of his compensation, is new.

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L. Withdrawals by Owner-Employees

The earlier proposed bill would not have repealed the provision prohibiting an owner-employee from withdrawing his voluntary nondeductible contributions before the taxable recovery of deductible contributions.

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AN INTERVIEW WITH SECRETARY GEORGE SCHULTZ

April 17, 1973

U. S. TREASURY DEPARTMENT

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Q: ...You say there's no news announcement today. When is the next news announcement going to be?

SECRETARY GEORGE SHULTZ: Well, I'm just reflecting (name unintelligible) first law dealing with the press: never call a press conference unless you have some news.

REPORTER: You're not calling...

MAN: I didn't call this....

Q: Mr. Secretary, I wonder if you could tell us whether you were surprised by the House vote on the controls?

SECRETARY SHULTZ: Well, we worked for it, and we felt that that was a possible outcome. The size of the vote was larger than we expected. But it was a very strong -- strong vote, and we were gratified with it.

Q: Could you tell us how it in any way affects the administration's thinking as to any additional steps on your own in regard to toughening Phase III?

SECRETARY SHULTZ: Well, we have -- I think what all of the debate shows is how concerned people are about inflation. And we're concerned about inflation; the President's concerned about inflation. We've been working on the problem from practically the first day of the administration, in a sense. And we continue to be. But I think what people are reflecting -- and, of course, I talked about that at the lengthy hearing, for example, of the House Banking Committee -- is this sense of the need to have reasonably stable prices that people feel and which we

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want and which we're working for.

So I think that we felt that way and it shows that concern, and we have been trying to deal with it in every practical way we could think of that was workable, and we continue to turn that problem around as an administrative proposition.

Now, the uncertainties which we have been living under as far as would the law be extended and, if so, what would the form of the law be have made it difficult to know, you know, what your authority is and what you're mandated to do and would it turn out that way. There were certainly many versions of that law that the President wouldn't sign. And we don't know yet what the law will be. We have a Senate bill and a House bill. They both have a one year extension in them, so that's certain. Other than that, they're different...

Q: Well, Mr. Secretary...

SECRETARY SHULTZ: ...and we don't know what the procedures are.

Q: ...if you're willing to go on the assumption, though, that because of the similarities between the two bills you're going to get the main thing you want, which is the one year extension and no real change or diminution of your authority -- once that uncertainty is finally cleared up, does that mean other steps now are ready to be taken pretty soon after that?

SECRETARY SHULTZ: There are steps that are -- I think people don't realize the extent to which there is an ongoing administrative process which has been taking steps -- I won't say daily, but very regularly, maybe even daily, depending upon how big you define a step as. The step that people noticed, of course, was the ceiling on red meat certainly. And we have held hearings on oil and put controls on there of a different sort. And we have been working with these various industry groups, food industry group particularly, to explore all those problems. We have been working on supply problems of agriculture. We have had a major impact on getting the stockpiles released. We have been doing all that kind of thing. And I've talked to the (word unintelligible) Council. We are embarking, I guess everybody knows, on a series of discussions with people in different industries. Are you familiar with that set of things?

SEVERAL VOICES: No. Like what, I mean?

SECRETARY SHULTZ: We have a program of discussions with industries where we feel there seem to be special price problems -- machine tools, metal containers, nonferrous metals, paper, textiles, and perhaps going on to electrical machinery, fabricated structural metal, glass, unedible fats and oils, iron and steel, plastic resinous materials (?). And we come to those discussions prepared with, as best we can (words unintelligi

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government, recent price behavior, supply factors and demand factors, and one thing or another like that. And we will explore with them what are the limiting factors preventing expansion of supply. What capacities are coming along? What are the sources of current projected demand? What world market conditions are impacting or suspected to impact on U. S. markets? What changes are taking place in inventory quantities? What cost pressures have, is, or will the industry experience -- raw material, labor, other costs? How much cost (word unintelligible) has there been and how much is expected? What explanation does the industry see for recent price behavior and what price behavior is expected in the future?

In other words, I think there is an ongoing administrative process that is partly informational and partly letting the industry know we know they're there and we understand it a little bit. And in assessing things, we find that when you do this you discover things. It may be in the sense that everything is known. What you do is you come to realize things that are -- what their strategic importance may be. For example, in the lumber hearings, we discovered that there is a one hundred rule, so to speak, that affects all sorts of calculations about when you cut and how profitable it is, and so forth. And a hundred years is longer than it takes most of these trees to grow. So if you cut your assumption down, you automatically increase the potential supply. And the assumption doesn't -- seems to be obsolete in the way a tree farm operation goes. So that's something that government can do something about, and so on.

So there is this ongoing process. And I think it's probably a fair statement that we need to not only maintain a strong administrative posture in the controls program, but we need to let people know about it more. And we've just sort of been doing it -- letting people know -- but it isn't been -- we haven't served notice(?) on people that we're doing these things. But maybe it's a good idea to be more visible about it.

Q: Mr. Secretary, what can we do about the whole range of commodities that are traded on world markets? Isn't this a major problem in your program?

SECRETARY SHULTZ: That's a major problem, and it's a problem that you have to approach with great care. Because if you are -- if you are using a raw material which you're getting a major fraction off the world market and you decide that you're not going to pay the price for that raw material, then if that market is strong you're not going to get the raw material. And then you've got all kinds of down-the-line impacts of that in terms of the operation of the economy and jobs, etc. So I think we have to have a strong stance on prices. But we have to watch out all the time that we don't wind up cutting off our nose to spite our face.

The basic thing that one tries to do is work on the supply factor. And of course, price tends to have an impact on the nature of demand, both in terms of substitutability and in terms of overall demand, and then see where we can use the wage and price control machinery to keep things in bounds and we don't have any more price increase than we need to....

Q: Mr. Secretary....

SECRETARY SHULTZ: ...sometimes there grows a situation where, let's say, there are increases in raw material prices. There can grow a sort of a psychology that tends to over-extrapolate and over-anticipate, and I think the control mechanisms can deal with that so we get all the mileage we can out of the controls mechanism without using it in a way that shorts us in places where we don't want to be short. Maybe there're some places where people would just as soon be short, but I haven't seen too many of them.

Q: What about the pre-notification? Can that possibly be worth reconsidering at this juncture?

SECRETARY SHULTZ: Well, that's been a subject that's been discussed a lot. And there are various forms of that are perpetually under consideration. Our price problems to date this year have not been so much in the big so-called administered price industries where really the mechanics of Phase II, Phase III, and so forth, tend to apply the most and where something like pre-notification has its greatest impact. Everyone rivets on those areas, but they're not the areas that are causing us all the trouble. The areas that have been causing us the most trouble so far are the same ones that caused trouble in Phase II. I'm not saying that they are not some general problems in the field of inflation. But that area that's most affected by pre-notification is not the place where we've been having the difficulty. The auto industry, for example, by and large -- we've probably had lower prices in the auto [industry] in Phase III than we would have had if Phase II had continued.

Q: Mr. Secretary, is it fair to infer from all you've said that you're reasonably satisfied to stand pat with the Phase III control system, albeit you would make some certain ad hoc adjustments as it comes along, as you have already? I'm trying to find some general way to assess your attitude...

SECRETARY SHULTZ: Well, my attitude, and I believe the President's attitude, is that we should do very practical, workable thing we can to combat inflation. And that means, first, never taking our eye off the fundamentals. That's why the President's always placed such an emphasis on budget...

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Q: Never take your eye off what?

SECRETARY SHULTZ: Off of fundamentals. And whenever we find, leaving aside the sort of macro type problems -- where we see problems in a particular industry, to approach it both in terms of the supply/ demand type factors and the mechanics of the wage and price system in the control sense, and to get as much mileage as we can out of the control mechanism, plus trying to keep working on these other things. That's why, in the food area, we place such a lot of emphasis on our effort to increase supply.

Q: We have heard....

SECRETARY SHULTZ: I don't -- I'm not really answering your question directly, because I would rather leave it sort of fuzzy in the sense that what -- you can say that you move from Phase II to Phase II, and you can just say that you describe that change because there are a number of discreet steps that are large enough to warrant changing a name. But I don't know. All of these things tend to have a lot of common features and merge into together, to some extent.

Q: Let me just follow on point, if I may. I'm beginning to wonder if leaving it fuzzy is beginning to be a problem itself...

SECRETARY SHULTZ: It may be.

Q: ...in that there's been so much talk about a freeze, that there may be some anticipatory price...

SECRETARY SHULTZ: I think -- I think the last month or so has been an unfortunate month from the standpoint of the wage-price program, because there has been so much uncertainty about what's likely to happen, with all of the congressional discussion and other discussion of freezing this and that and rolling back, and whatnot, that it makes people jumpy. So I think that you're right in pointing that out as something...

Q: Let me pursue that....

SECRETARY SHULTZ: ...And it may very well. The President may want to make a clarifying statement. I'm sure, if he gets a bill he can sign, he will probably make some statement about the timing of it (?).

Q: We have heard from several sources that the controls program was set up to control cost push inflation. And now we're in a demand pull situation....

How do you feel about this kind of philosophy?

SECRETARY SHULTZ: He's hitting me with my ideology. There is a school of thought that says there's no such thing as cost push. Don't write that down. I don't want to get into this kind of an argument. But that is a legitimate school of thought.

I think there is a genuine and worthwile distinction among situations. And regardless of sort of the underlying economics and conceptualization of it, the situation we had in mid '71 was a totally different one than we have now. We had -- in mid '71, we had in place all of the classic measures that will deal with inflation, and they were dealing inflation. And the problem was in an unsatisfactory state, obviously, but it was improving. Now there was a lot of -- there was unused capacity that was definitely usable, and we had an expansion underway which we wanted to make more rapid. And we knew that when you -- at that stage when the expansion picks up steam, you generate big increases in productivity, and as some combination of the control system and the underlying factors took hold, you would have low labor costs and you'd have all the ingredients, with or without a control system, that would tend to improve the situation.

In fact, I think I gave a talk -- I'm sure I did -- to the National Press Club in January of 1972, entitled "Why Will Phase II Work," and, in addition to paying my respects to the control system, outlined all of these underlying favorable factors. Well, now we have a situation where economies around the world are all very strong, with the impact on these international traded commodities, including food, which is visible. We don't have very much unused capacity. There're all sorts of problems in classifying what is real capacity and what isn't. You know that as you move toward more full utilization, what's left over is the less efficient part of it. We know that for sure. But at any rate, we don't have that. We will have strong expansion during the year, but we won't have the acceleration of expansion. We can't. It's not physically possible, as we've got to get ourselves to the point where our rate of real expansion is as as close as it can be kept to the natural rate of expansion of the economy, by definition, pretty soon. But that means that the rate of productivity advance won't be so fast, and we will have (?) that factor.

Also, we had something in the freeze that was -- we didn't realize how well timed that was. Or maybe I should have said we knew it.... The seasonal pattern of food prices, from around July or so, is down for the balance of the year. And the result was, in terms of food prices and with the law of supply/demand conditions there, that, on the whole, food prices did not, during the freeze period or in the subsequent months of that year -- didn't hit the ceiling. So food was a big aid to us in the whole thing.

So there are very different -- so there are very different

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factors.

Q: Can we get on to the question, since there was a distinction made between cost push and demand pull, as to what your view is of the price situation when (words inaudible) interfaced with labor negotiations?

I mean, I presume you've not been totally still in trying to sound this out from the labor side. And what we'd like to know is if you've received any kind of assurances -- but I wouldn't think you would tell us if you hadn't -- but I'd like to know what your own feeling is. Surely, they've gotten some kind of risk in there. It's been publicly articulated by Meany (?).

SECRETARY SHULTZ: Well, we have -- we have had so far this year a very good labor response. And I think that underneath it all there is a desire all around in the society to be constructive in working at this problem. Now that doesn't mean people aren't going to fight hard for what they think they deserve. And they should. But I think that everybody wishes that we would have control of inflation, and everyone sees, in a sense, these connections. And I don't get this sort of spirit of 'we've got to strike all the time' that we had at some earlier moments. But that is much less apparent now.

So I think those are all good things. And actually so far this year, I think we've come off pretty well. Now, how the subsequent events will unfold remains to be seen. We have, of course, been working with people on both sides of the labor/management situation, and we'll continue to do that. I don't want to make any forecasts or whatnot, except that, recognizing all of the problems that have been created by the food price business, some of them subsequent to the statement; nevertheless, the statement put out by the Labor-Management Advisory Committee is a very constructive statement, I think.

Q: What's the significance of the recent by-play involving Secretary Brennan and Mr. Meany and the President? What does all this mean?

SECRETARY SHULTZ: Well, the President, of course, is very much in support of Secretary Brennan. Pete has moved into a difficult job, which he recognized, and is doing a very good job of coming to grips with his department, getting a staff and working through policy issues that are difficult policy issues, and has, I think, done quite a job -- I've felt it myself -- of representing the viewpoints that he holds. And the President's aware of that. And this question of what all lies behind Mr. Meany's statement yesterday, I don't know and I don't have any comment on that.

Q: Secretary Shultz...

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SECRETARY SHULTZ: But you know, there's been a lot of -- there's been a lot of policy put out in the -- sort of the economic sphere, things that are particularly interesting to labor. There's the trade bill that has some strong aspects to it. There is the minimum wage, with its training differential, sort of like an apprenticeship program. There is the concept; there is the pension bill; and there is the unemployment insurance bill, with a gigantic breakthrough in the benefit standards' area. So those are all, each one, a very important item. And Secretary Brennan, Secretary Dent, others -- the administration has worked its way through these things, and I think that's a big area of economic policy out there, and it will continue. We'll have an energy message that has major things in it. We'll have a tax program that will be out. Of course, Secretary Brennan is not as involved in those two things.

Q: What's your timing on the tax program, by the way?

SECRETARY SHULTZ: Well, we'll testify the thirtieth of April....

Q: Secretary Shultz...

SECRETARY SHULTZ: We had a piece of it in the trade bill. We'll have a little piece in the energy message. But you won't be able to see the -- in a sense, the trade-offs in the tax program until you see the whole program.

Q: Most of these involve -- most of the tax things involve foreign relations, U. S. to foreign taxes, in one form or another?

SECRETARY SHULTZ: Well, no, that's what has been announced in connection with the trade bill...

Q: Yes.

SECRETARY SHULTZ: ...and we may break an additional little piece in connection with the energy message. But the -- sort of the overall scope of the problems of dealing with equity, dealing with simplification, dealing with special problems, and so on, you won't be able to see until you see the whole thing. I would urge you to wait for it...

Q: Mr. Secretary, as I understand it, you're excluding the possibility of any kind of a new freeze or return to Phase II controls and speaking instead of ad hoc measures, greater visibility, some of the things that Dunlop and his people are doing.

SECRETARY SHULTZ: All that I have done, Irving, so far is to try to recapitulate and describe the ongoing situation and to suggest to you that it is -- there is much more of a

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strength of administration that John Dunlop is carrying out than is appreciated. And whether you call that Phase III prime, or whatever you want to call it, nevertheless that has been an ongoing thing from the beginning. And of course, the problems of administering a program have been sort of peppered with and interspersed with the problems of working on the legislation. If you don't know what your statutory base is, it's hard to know precisely where you're going. But that is going to be clarified.

We had hoped -- people say, why did we move so rapidly, or why did we move in January on the control system. We had hoped that we would have prompt action on the Economic Stabilization Act and that the Congress would want to know what, broadly speaking, was the President's intent in administering it, and that by taking an action then, which was I think broadly recommended by many groups observing the wage-price control system, that we would lay the groundwork for prompt action. But, of course, it was not until two and a half, three months later that the House got around to holding hearings on it...

Q: What difference would that have made, though?

SECRETARY SHULTZ: It would have made the difference that people -- we would have know -- people would have known what the statutory base is, and we wouldn't have had this month of ups and downs on 'is there going to be this, that or the other.'

Q: There wasn't anything to prevent you from, in effect, reading off all of these particular -- I don't like the word "ad hoc," because it's a pejorative. I'll take your point that maybe you really were trying to get into a broad spectrum of things by going into particulars. There wasn't anything to prevent you from having done that quite publicly at least a month or six weeks ago.

SECRETARY SHULTZ: Well, we've been doing it. We've been doing it. There have been steps, and I've cited this most recent one that is aimed at understanding better the most recent price splurge...

Q: No, no, no. I didn't mean doing it; I meant doing this; I mean publicizing it. That is, as (words unintelligible), never call a press conference unless you've got something to say, but it's quite clear you do have something to say or points to get across. And I'm not saying that in any critical sense, and that's fine. But I'm asking why wasn't it done -- why did you not choose to do it six weeks ago?

SECRETARY SHULTZ: Well, we have done an awful lot of talking about Phase III or about -- let's drop this; let's not say talking about Phase III -- talking about the wage and price control system and what we're trying to do with it and

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how it works, and so on. And for quite a period of time, it was basically trying to explain to people what is was, in what sense is it mandatory, in what sense is it self-administering, in what sense is it voluntary. And all this was going around and around, as we were embarking (?) our Food Price Committee, and so on. And I think we had lots of discussion that was about that.

But maybe we should have had a stronger public relations kind of effort...

Q: Mr. Secretary...

SECRETARY SHULTZ: ...with Dunlop talking about it and saying that's what we're trying...

Q: ...well, you can't have a public relations' effort unless, in fact, you have something, a strong thrust to say, and it hasn't come across. And I can't fully put my finger on the PR man for that. And if, in fact, there's a sense of talking out of two sides of the mouth, which there was a little while ago -- that is, not having -- a sense of ambivalence, which doesn't seem to be the case in your mind now...

SECRETARY SHULTZ: I don't think there's been any ambivalence. There are changes in the program, and, to some extent, they're difficult to explain. The great thing about Phase I, the freeze, was it was so simple to explain. And yet that simple world you can't stay with for too long; then it begins to get more complicated...

Q: Secretary Shultz, now that you will receive the legislative base that you had wanted, and given the strength of the administration of Dunlop's action, which you've referred to, is it your feeling then that that will be sufficient to cope with the inflation problem?

SECRETARY SHULTZ: Well, we will see what we learn. I think that we'll see a kind of a continuing pattern of trying to do, administratively, practical, workable, sensible things...

Q: Rather than...

SECRETARY SHULTZ: That's the way you find out about them.

Q: Rather than more drastic actions, the stuff we've been reading about of a freeze, a return to Phase II, that kind of thing?

SECRETARY SHULTZ: Well, I want to emphasize the administrative stance that the program has and which we're trying to bring up to the surface to a greater degree. And I think we will be able to do that more effectively when people pay more attention to what's going on over there in John Dunlop's office -- and the action is not on the Hill all the time.

Q: But can you flatly rule out the administration imposing a new freeze? Can you tell us now that that won't be done?

SECRETARY SHULTZ: Under the Economic Stabilization Act, the President has broad options, and so they'll stay there. But I don't want to create any headlines or big talk about that...

Q: Mr. Secretary, you indicated that one of the problems that has caused prices to go up is the speculation on...

SECRETARY SHULTZ: A general -- a general wage-price freeze. I don't -- the President does not...

q; Could we expect some kind of a major announcement...

[Confusion of voices.]

MAN: Now one at a time.

Q: I think you just said the crucial thing I wanted to hear, and I didn't hear it. Would you repeat it?

SECRETARY SHULTZ: A general across-the-board wage-price freeze is not under active consideration by the President, as far as I know.

Q: A question that follows from that. Prices have been running up in industrial commodities and many other areas where they've been stable for some time, evidently in anticipation of the freeze. One of your own officials has made a speech to this effect. Do you think that if...

[Confusion of voices.]

SECRETARY SHULTZ: ....I agreed with you. Somebody brought that out...

Q: Right. Is it your feeling that if nothing is done, those prices will have to fall back again? Will time be on your side?

SECRETARY SHULTZ: We think time is on our side and in many areas, particularly the areas where we have taken strong supply oriented action. The stockpile business will affect some of these, depending how promptly we can get the legislation. The agriculture move will affect some of these. If we can get this anti-inflation piece of the trade bill passed in a hurry, that would be some help, but it doesn't look as though we will.

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But at any rate, that's the sort of thing that can help you down the road.

So we think time is on our side on these things. Of course, we're like everybody else. We read the weather reports from the Middle West. Every morning, the first thing I do -- I don't look at the headlines any more or the financial page; I turn to the weather report, see how we're doing out there. It has been just a terrible run of bad weather. How heavily it hurts -- and it's hurt some, we know that. I'm told by the experts that if we get good weather now that, basically, we'll be all right; it won't have that much effect. But the weather has been foul, and the wage and price system can't cure that problem.

We had one incident in the hearings when somebody -- in the House hearings when I was testifying with Butz and Dunlop, when one of the members suggested that while they were legislating all these things, they should legislate a little more rainfall and a little more sunshine...

Q: A very good idea.

SECRETARY SHULTZ: And Butz said, "Well, now, just wait a minute. If you're going to legislate more rainfall, you better go slowly; we've already had more than we need, and that kind of move could be counterproductive." But you observe sometimes that the problem may be less separation of the executive and legislative branches and their functions as separation of church and state on some of these matters.

Q: But these discussions that you referred to...

SECRETARY SHULTZ: Don't look so serious.

MAN: He always looks serious.

Q: Have these discussions that you referred to resulted in any unpublicized rollbacks of prices?

SECRETARY SHULTZ: I think there have been a few. But Dunlop is your better man to talk about that.

Q: Is he really?

[Laughter.]

Shall we tell him you said so?

SECRETARY SHULTZ: Help yourself.

Q: Okay, fellows, I'm going to be serious, because

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I was thinking of this GNP which is coming out this week and the consumer price index and next month's wholesale price index, all of which, by all indications, or in the case of the GNP, going to show an overheated economy. The consumer price index, judging by what has preceded it, will be bad news. I was wondering. The pressure that you're going to be under from labor and others for action -- I don't know that quite formulates itself into a question. But...

SECRETARY SHULTZ: Well, in a sense, whatever the GNP inflator turns out to be, or the consumer price index turns out to be -- presumably high rates -- won't be news. That is, we already have -- we know the news, because, as you point out, the information relates to a past period which we have not measured with the precision that we presume the CPI has, but we've all measured it with the imprecision of our own shopping experiences and the wholesale price index, and so on. So that you know more or less that it's not going to be a very good set of readings.

The first quarter GNP, as we all know, has a special problem connected with it each year, because it has the government pay increase, and that always runs it up. It's a special thing, because that's counted as a price increase, as you know. So that when you get the GNP, I hope you will all want to look at the private deflator, which will be enough, I'm sure, but it won't have to be worse...

Q: You said, in a sense, it won't be news. Our ten dollars on the table says it'll be on everybody's front page...

SECRETARY SHULTZ: Oh, yes. Yes. I didn't mean that...

Q: No, I know what you...

SECRETARY SHULTZ: ...I meant that if it turned out to be low, everybody would be surprised. In that sense, it would be news. If it turns out to be high, it's what everybody expects. And it's news, but it isn't unexpected news...

Q: If I extrapolate, you know, you don't need to be a weatherman to know which way the wind is blowing, as was said a little while ago. Now that stuff may or may not be news to anybody that follows it. But I'm asking really about the political impact it's going to have on groups who want a larger -- maintain that they had their purchasing power eroded. But, you know, the argument really is about five, six billion of the GNP between wages and farmers, as some other administration official mentioned at the beginning of the year. And I still don't feel that the answer that we've got so far about -- which really is the answer, quote, "labor statesmanship," doesn't take away the risk of

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eleven to fourteen percent settlements in the next three or four months...

MAN: Or strikes.

Q: Well, I wouldn't even want to go to strikes for the minute. Let's just presume that you've got full-time capacity. And the companies will say, "Hell, we'll settle that. Why not see if we can get it through Dunlop one way or another." And then it'll be Dunlop moving furiously in the back room trying to keep -- you know, trying to balance one off against the other. I just want to know, is that really -- is that the essence of your program?

SECRETARY SHULTZ: Well, as far as the -- as far as the wage system is concerned, we have -- we have a standard; we have an approach to that standard; we have the Labor-Management Advisory Committee material. We know that the food price problem is a particular...

[Tape concludes at this point.]

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

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FOR IMMEDIATE RELEASE April 18, 1973

JAMES B. CLAWSON
APPOINTED DEPUTY ASSISTANT SECRETARY FOR
ENFORCEMENT, TARIFF AND TRADE AFFAIRS, AND OPERATIONS

Treasury Secretary George P. Shultz today announced the appointment of James Clawson of Downey, California, as Deputy Assistant Secretary for Enforcement, Tariff and Trade Affairs, and Operations under Assistant Secretary Edward L. Morgan.

Clawson, 33, previously served as a Staff Assistant to the President for Domestic Affairs, being appointed in October of 1971. He was also Deputy Director of the President's Cabinet Committee on Education and had been on the Committee staff since January 1970. From April 1969, to April 1970, he was the Executive Assistant to the General Counsel at the Department of Health, Education and Welfare. From 1966 to 1969, he practiced law in Los Angeles, California.

Born in Safford, Arizona, Mr. Clawson was educated in public schools in Compton, California. He attended the University of Southern California where he received a BSL in 1964 and a JD from the School of Law in 1966.

Mr. Clawson is married to the former Jeannette Giles of Downey, California. The Clawsons have three children and reside in Gaithersburg, Maryland.

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Department of the TREASURY
OFFICE OF REVENUE SHARING
WASHINGTON, D.C. 20220
NEWS
TELEPHONE 634-5191

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New Telephone No. 634-5191

FOR RELEASE 10:00 A.M., EST
WEDNESDAY, APRIL 18,1973

PLANNED-USE REPORTS MAILED OUT

The Office of Revenue Sharing in the Department of the Treasury today mailed Planned-Use Report forms to its more than 38,000 State and local government recipients. The one-page report covers the period from January 1, 1973, to June 30, 1973.

The general revenue sharing law requires each governmental jurisdiction to prepare a report of the uses which it plans to make of revenue sharing funds and to publicize that report locally. Revenue sharing regulations require local and State governments to publish copies of their reports in newspapers having general local circulation and to provide other publicity about the report to the news media, including minority and bilingual media.

"President Nixon's objective to enhance local accountability is achieved by the requirement that State and local governments publicize their planned use of general revenue sharing funds to their local citizens," Graham W. Watt, Director of the Office of Revenue Sharing, explained. "The democratic process will then function to offer opportunity for public participation in local decision making and budgeting."

"The Treasury Department will continue to stress the importance of this local process and will not ask for updates to these reports when local plans are changed," Watt said.

Each Planned-Use Report form contains the Treasury Department's estimate of total funds to be paid to each jurisdiction for the third entitlement period (the first six months of calendar 1973). Local officials are asked to indicate the amounts which they propose to spend in each of the eight priority expenditure categories authorized in the revenue sharing law (operating and maintenance expenses for public safety, environmental protection, public transportation, health, recreation, libraries, social services for the poor or aged, financial administration, and for capital expenditures).

The Planned-Use Report must be returned to the Office of Revenue Sharing by June 20. A government's failure to comply with this requirement of the revenue sharing law will jeopardize continued eligibility for future general revenue sharing payments.

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Later in the year, each jurisdiction will be asked to report to the Office of Revenue Sharing its actual expenditures of general revenue sharing funds. Both the report of planned use and the report of actual use will be made annually as required in the State and Local Fiscal Assistance Act of 1972.

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Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE W04-2041

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Note to Correspondents: April 17, 1973

Treasury Secretary George Shultz, and Charles DiBona, Special Consultant, will brief the news media Wednesday, April 18, at 9:30 a.m. on President Nixon's energy message in the West Wing Briefing Room of the White House. Persons without White House press credentials should call 964-2041, no later than 3:00 p.m. today (April 17) to make arrangements for clearance. Entrance will be through the northwest gate on Pennsylvania Avenue.

Treasury Deputy Secretary William Simon, Chairman of the President's Oil Policy Committee, will hold a technical energy briefing at 10:30 a.m. in room 450, Old Executive Office Building. Persons without EOB building passes should call 964-2041, no later than 3:00 p.m. today to make arrangements for clearance. Entrance will be through the main EOB entrance (D-1 lobby) on Pennsylvania Avenue.

All information generated by these two briefings will be on embargo until 12:00 noon.

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EMBARGOED FOR RELEASE UNTIL
12:00 NOON, E.S.T., APRIL 18, 1973

STATEMENT BY WILLIAM E. SIMON
DEPUTY SECRETARY OF THE TREASURY
ON THE OIL IMPORT PROGRAM
APRIL 18, 1973

President Nixon today signed a Proclamation which terminates volumetric quotas on oil imports beginning May 1, 1973. The Proclamation substitutes a system of license fees on imports of petroleum and petroleum products into the United States.

Today's action follows an intensive study of the nation's oil import policies relative to current domestic supplies of crude oil and petroleum refinery capacity and the national security interest of the nation. The study was conducted by an inter-agency task force under my direction as Chairman of the Oil Policy Committee.

License Fee Program

An explanation of the new license fee program is attached. In essence, however, as of May 1, 1973, there no longer are any volumetric controls on oil imports, and the existing duties on crude oil and refinery product imports are suspended. Any person or company wanting to import crude oil and/or refinery products may do so after obtaining an import license from the Office of Oil and Gas at the Department of Interior and after paying the license fees in force at the time.

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In order to provide an equitable transition from the current program to the new license fee system, certain crude oil and product imports will be exempt from license fees for a limited period after May 1, 1973. These exemptions, however, will be phased out over a seven year period.

Demand and Supply

In recent years, the United States has seen its surplus supply of crude oil and refinery capacity rapidly dwindle into a deepening deficit, as demand for petroleum products has spiraled upward and discoveries of new reserves and construction of new refineries in this country have failed to keep pace. Increasing reliance on imports of foreign supplies has raised serious questions with regard to the nation's balance of payments position and national security requirements. In addition, the difficulty in satisfying the nation's home heating oil requirement this past winter and the threat of a gasoline shortage this summer underscored the iminent need to reconsider national oil policy, and an investigation of current policies was begun in February by the oil import task force under my direction.

Mandatory Oil Import Program

The task force found that the Mandatory Oil Import Program no longer provided the proper climate to support a vigorous domestic petroleum industry, which is essential to the national security and the economic welfare of the nation. It found that the program was neither adequate to alleviate the threat of near-term crude oil and product shortages, nor adequate to provide longer-term incentives for increased investment in domestic

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exploration and production and new refinery construction and expansion.

The task force found that the program was not so much a failure as it was obsolete. It was established at a time when domestic production was in excess of demand and it was founded on the premise that it was necessary to restrict imports of cheap foreign oil to encourage the domestic petroleum industry in the interest of national security. The conditions which gave rise to this policy no longer exist.

Further, the original purpose of quotas was to provide reasonable self-sufficiency by encouraging the development of domestic production and refining capacity. This clearly has not happened.

Companies were induced to explore and produce abroad in order to benefit both from lower foreign producing costs and the assurance of a large higher-priced market at home. Imports now account for 30 percent of production and are expected to climb to the 50 percent level in a few years.

The task force found that these unintended developments are inherent in the quota system, and have not been corrected by the stop-gap measures used to shore up the program over the past years.

Lately refinery capacity has also begun to move abroad. Although other factors have contributed to this development, including environmental restrictions which have blocked refinery plant sitings, the uncertainties of the quota system have had an adverse effect on long-range investments for new refinery construction as well as investments for additional exploration and production in this country. This uncertainty developed because:

1. Import allocations are subject to annual realignment;
2. In recent years, the program has been altered frequently, making it a patchwork of special provisions and exceptions; and
3. General dissatisfaction with the program both in industry and the government has fostered the expectation that it would be abandoned shortly.

Basis for Policy Recommendation

Based on this assessment of the Mandatory Oil Import Program, we launched a full scale effort to develop recommendations to restructure import policies. We recognized the need to get the federal government out of the business of regulating oil imports, since the government does not have the forecasting capability to predict exactly what import levels will be each year. Our objective was to design a program that would assure the oil industry flexibility to import oil to satisfy the short-term needs of U. S. refiners and consumers while, at the same time, provide longer-term stability and additional incentives for increased domestic exploration and production and new refinery construction and expansion.

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We knew that in designing this new program the special provisions, exceptions and subsidies in the MOIP would have to be ended. We realized that this could not be done abruptly, but would have to be done gradually to avoid putting an unfair economic hardship on the numerous persons and companies that together have invested many millions of dollars in the domestic oil industry based on the policies under the MOIP.

We also realized that our new policy recommendations would have to satisfy consumer interests in reasonable prices and sufficient supplies without straining or disrupting the complex mechanism known as the oil industry. We knew that each segment of the industry must continue to be viable in order to meet the supply needs of the nation both in the near and longer term. The formidability of this task is obvious when you realize that the oil industry is composed of companies that vary in size from global to local and from integrated majors to independent producers, refiners, marketers and jobbers.

We further recognized that our policy recommendations would have to be compatible with other government policies and programs, in particular the Economic Stabilization Program.

We knew that in order to be more attractive for oil companies -- or for that matter anyone -- to build new refineries and explore for more oil in this country, prices in this country for foreign petroleum products would have to be higher than the prices for domestic products. Only in this situation, would it be more profitable to manufacture those products here than to make them somewhere else and import them into this country. There had to be clear advantages to producing crude oil in this country rather than producing it somewhere else and in turn selling it in this country. Therefore, we have set a license fee on imports of crude oil and even higher license fees on imports of residual fuel oil, distillates, gasoline, unfinished oils and other products. Various changes in these incentives are spelled out in advance so that the oil industry will have a reasonable degree of certainty under which to make major new investments in U. S. exploration and development and refinery construction.

Independent Refiners

Implementation of the new license fees on May 1, 1973 will give value to unused 1973 import licenses, providing landlocked independent refiners with some additional leverage to bargain for domestic "sweet" -- low sulfur -- crude oil.

Import licenses, in general, now have no exchange value because the landed prices of foreign crudes -- especially "sweet" crudes -- are roughly equivalent to or above domestic crude prices. An increase in the value of independents' licenses by the differential of 10-1/2 cents per barrel initially should help independent refiners bargain for additional "sweet" crude supplies. Moreover, the ability of the independent refiner to obtain license fee-exempt tickets from the Oil Imports Appeals Board will, hopefully, enable them to obtain a sufficient number of tickets to allow them to bargain for adequate crude oil supplies under present-day price relationships.

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Under the new license fee program, the exemption of 1973 allocations for all refiners will be phased out over 7 years. The intent is to provide refiners both the time and the incentive to adapt their refineries to run available "sour" crudes or to develop or contract for adequate "sweet" crude supplies for the long-term.

Independent Marketers and Jobbers

Today's action also gives value to the 1973 import allocations issued by the Oil Import Appeals Board to independent marketers and jobbers, enhancing their ability to bargain for products. The OIAB will continue to hear appeals from this sector of the industry to make certain that no undue hardships occur as a result of tight product supplies. In the long-run, the license fee program will further benefit independent jobbers and marketers by encouraging additional refinery capacity, which will make products more readily accessible.

Prices

The impact of today's action on oil prices is expected to be gradual over the long-term and minimal in 1973. Imports subject to the new license fees during 1973 are expected to be such a small percentage of the nation's total oil requirements as to have little, if any, impact on consumer prices. The Cost of Living Council has advised us that there is adequate flexibility under the current oil price controls to allow such price movements should they be necessary to meet the supply needs of the nation.

Today's action also gives all importers the opportunity to negotiate long-term contracts, and thereby lower prices, for their crude oil and product supplies. This should be especially beneficial to deepwater terminal operators in PAD District I.

Conclusion

The program announced today by the President deals equitably with the many and varied aspects of oil import policy, while satisfying the national security interest by assuring the oil industry the flexibility, certainty and incentives to meet the growing petroleum needs of the nation through domestic expansion at all levels of the production and distribution system.

Today's action suspends oil import quota restrictions without abandoning the Mandatory Oil Import Program. It opens the way for foreign imports to alleviate potential shortages of crude oil and finished products, without foreclosing the option of re-imposing mandatory controls at any time in the future, should that ever again become necessary or desirable. The intent is to maintain import control and accountability without restricting the flow of essential oil into the United States.

The license fee approach gives the President the flexibility to satisfy short-term needs of consumers without destroying long-term incentive, namely, domestic exploration and production of crude oil, and construction and expansion of domestic refineries.

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Caution: The following text is meant to clarify the Presidential Proclamation concerning changes in the modified oil import program. It does not have any legal effect in the interpretation of the implementing regulations to be published shortly.

April 18, 1973

SUMMARY OF THE MODIFIED OIL IMPORT PROGRAM

As it is currently structured, the Mandatory Oil Import Program has neither prevented near-term crude oil and product shortages nor provided adequate longer-term incentives for increased investment in domestic exploration and production and new refinery construction and expansion. The program is not so much a failure as it is obsolete. It was established at a time when domestic production was in excess of demand and it was founded on the premise that it was necessary to restrict imports of cheap foreign oil to encourage the domestic petroleum industry in the interests of national security. Today, foreign oil prices are roughly equivalent to or above domestic prices and this country must import ever larger amounts of foreign oil to supplement its inadequate domestic production.

Not only does the program provide little benefit now, it has the very real potential of aggravating tight supply conditions. Unexpected increases in the demand for imports could lead to a situation in which there is insufficient import tickets, creating the possibility of a shortage that otherwise could have been avoided.

Probably the greatest shortcoming of the current program, however, is the uncertainty inherent in its operation. This uncertainty has an adverse effect on long-range investment planning for new refinery construction and drilling. It is created because:

1. Import allocations are subject to annual realignment;

2. In recent years, the program has been altered frequently, making it a patchwork of special provisions and exceptions; and,

3. General dissatisfaction with the program both in industry and government is fostering the expectation that it will be abandoned shortly.

Therefore, it is recommended that the program be modified to meet current needs and objectives. The program must be restructured to assure the oil industry the flexibility to import oil to satisfy the short-term needs of U.S. refiners and consumers while, at the same time, providing longer-term stability and additional incentives for increased domestic exploration and production and new refinery construction and expansion. We believe the program recommended below will achieve these objectives.

There are built into the program a number of exemptions to license fees during the next seven years. This is done to provide a period of transition during which both producers and consumers will be able to adjust to the new system. In the long run, however, each of these exemptions will be phased out of existence in order to create a simpler and more uniform program than now exists.

PLAN OF ACTION

1. Volumetric quotas now established under the Mandatory Oil Import Program are being eliminated and a system of license fees established to regulate the level of crude oil and product imports. This change will help to assure adequate supplies of crude oil and refinery products in the short run and sufficient incentives to domestic drilling and construction of refineries in the long run. The legal basis for these changes is provided by Section 232 of the Trade Expansion Act of 1962.

2. Effective May 1, 1973, any person or company wishing to import crude oil and petroleum products may do so simply by applying for an import license to the Department of the Interior, Office of Oil and Gas and by paying the appropriate license fee.

3. Also effective May 1, 1973, existing tariffs on crude oil and refinery products will be suspended. In their place, license fees will be imposed on imports equal, in the long run, to 1/2¢ per gallon of crude and 1 1/2¢ per gallon for unfinished oils and all refinery products. Fees will be paid to the Office of Oil and Gas at the time of application for an import license.

4. These long-term fees will take effect at the end of 1975. In the meantime, license fees will be stepped-up over time. The following schedule of fees will apply to all but exempt imports.

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Schedule of License Fees
(cents per barrel)

Product	May 1 1973	Nov 1 1973	May 1 1974	Nov 1 1974	May 1 1975	Nov 1 1975
1. Crude Oil	10½	13	15½	18	21	21
2. Residual fuel oil, Unfinished oils, distillates and refinery products other than gasoline	15	20	30	42	52	63
3. Gasoline	52	54½	57	59½	63	63

5. License fees will be reassessed from time to time to assure that the primary objectives of the program are being met, namely, to provide adequate incentives to domestic exploration and drilling for crude oil and construction and expansion of domestic refineries, while not imposing unnecessary burdens on the American consumer.

6. All import licenses outstanding as of May 1, 1973, will be honored by the United States Government license fee-exempt.

7. Certain crude oil and product imports will also be exempt from license fees for a limited period of time after May 1, 1973. Current program participants will be granted yearly allocations, exempt from license fees, equal to import levels in effect as of April 1, 1973, for residual fuel oil and quota levels in effect as of January 1, 1973 for crude oil and petroleum products other than residual fuel oil. The exempt allocations will be granted through April 30, 1974, after which the level upon which allocations are based

will be reduced by a fraction of the original level each year for the next seven years. No allocations will be granted license fee-exempt beyond April 30, 1980. The schedule by which exemptions will be phased out is:

Percentage of Initial Allocation
Exempt from License Fees

After April 30	Percentage
1973	100
1974	90
1975	80
1976	65
1977	50
1978	35
1979	20
1980	0

8. Crude oil import licenses not subject to license fees will continue to be convertible to unfinished oils and finished products at existing rates (15 and 1 percent,respectively) until January 1, 1974. Crude oil licenses subject to license fees will not be convertible.

9. Current participants in the Mandatory Oil Import Program are:

   a. Refiners.

   b. Petrochemical plant operators.

   c. Deepwater Terminal Operators in District I.

   d. Asphalt marketers or consumers in Districts I-IV.

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e. Recipients of grants from the Oil Import Appeals Board.

Persons or groups other than those currently participating in the program would also be allowed to import crude oil and products, subject to the license fee schedule indicated in Section No. 4.

10. The Oil Import Appeals Board will assume primary responsibility for assuring adequate supplies of oil for the independent segment of the industry. To this end, the OIAB will be authorized to distribute fee-exempt licenses to established independent refiners and marketers experiencing exceptional hardship or emergency. The OIAB will also advise the Oil Policy Committee about other ways to assist the independent segment of the industry.

    Integrated oil companies with special hardship or emergency needs will also be permitted to apply to the OIAB for assistance. However, those companies with a domestic crude oil production capability will be required to demonstrate their inability to obtain by exchange import licenses from those already distributed by the U.S. Government and their willingness to supply established independent refiners with 1972 allocations of crude oil and established independent marketers with 1972 allocations of refinery products.

    Specific guidelines for the OIAB will be issued shortly after the proclamation. The OIAB will, on all matters, report to the Chairman of the Oil Policy Committee.

    The OIAB's power to distribute license fee-exempt import licenses will expire on April 30, 1980.

11. Fee-exempt import licenses may, as at present, be exchanged for domestically-produced crude oil at a rate negotiated by the parties involved in the exchange. In any exchange, licenses not subject to a license fee would retain their license-fee exempt status.

12. Imports of ethane, propane and butane will be exempt from license fees. License fees will also be refunded on quantities of imported crude used to produce asphalt.

13. Companies building new refineries or petrochemical plants or expanding existing refineries or petrochemical plants coming on-stream after April 30, 1973 will be granted license fee-exempt allocations equal to 75 percent of their additional inputs for their first five years of operation. Throughput earning exempt allocations under these provisions will not be counted as certified refinery inputs in estimating exempt allocations.

14. License fee exemption of existing petrochemical plants using heavy feedstocks will be considered by the Oil Policy Committee at a later date.

15. Deepwater terminal operators in District I currently under the program will be allowed to import 50,000 barrels per day of No. 2 fuel oil exempt from license fee. After May 1, 1973 these imports of No. 2 fuel oil must be produced from Western Hemisphere crude oil unless otherwise exempted.

    The Western Hemisphere preference requirement will apply only if the Chairman of the Oil Policy Committee determines that imports from the Western Hemisphere are available. If they are not available, license fee-exempt imports will be permitted from other sources.

    The Chairman of the Oil Policy Committee shall determine whether, because of supply, price, and other considerations, the Western Hemisphere restriction is unduly restrictive and may suspend or reimpose this restriction as needed.

16. Import licenses for crude oil and products produced in all Western Hemisphere countries will be subject to license fees unless otherwise exempted. The fee exempt volume of imports for all Canadian and Mexican crude oil and products will be established at the average daily volume of imports into the United States under the existing quotas or during

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the first quarter of 1973, whichever is higher. The State Department will advise the OPC from time to time of any changes in the license fees on these imports which it deems to be in the security interests of the United States. Product imports for which no quota now exists will be allowed into the country under the license fee schedule presented in Section 4.

17. To integrate Puerto Rican imports more fully into the U.S. program, imports of crude oil and finished products to Puerto Rico will be subject to the same license fees after May 1, 1973 as the Mainland and will be allowed from anywhere in the world.

    a. All finished products refined in Puerto Rico will be shipped to the Mainland license fee-exempt.

    b. All license fees on Puerto Rican imports of oil will revert to the Commonwealth of Puerto Rico.

    c. Imports of crude oil and unfinished oils now governed by contractual agreements between Puerto Rico and the U.S. Government will be exempt from license fees for the remainder of the terms of these contracts. Upon expiration of these contracts, the exemption will be phased out according to the schedule in paragraph 7.

    d. Imports of crude oil and unfinished oils used to manufacture finished products shipped to the Mainland under the historical classification based on shipments prior to 1965 will be exempt from license fees and that exemption will be phased out over the same schedule provided for exempt refinery allocations.

    e. Finally, the Commonwealth will be allowed to impose restrictions on shipments to the Mainland of petrochemical and intermediates and products necessary to assure continued growth of the downstream petrochemical industry in Puerto Rico. However, ultimate responsibility for determining import policy will reside with the Chairman of the Oil Policy Committee.

18. Imports of crude oil and finished products into the Virgin Islands and free trade zones would be exempt from license fees after May 1, 1973. Exports from the Virgin Islands and entries from free trade zones into the United States will be subject to fees. However, the existing refinery in the Virgin Islands may continue to export to the United States license fee-exempt those products governed by contract with the U.S. Government for the term of that contract.

19. All imports from possessions outside the United States customs territory will be subject to license charges.

20. Imports under existing allocations to the Department of Defense will be allowed license fee-exempt. These allocations will be phased-out over the same period allowed for exempt allocations.

21. Whatever customs drawbacks apply to existing tariffs or the import-for-export provisions that apply to existing petrochemical programs will similarly apply to license fees.

22. The Oil Policy Committee will explore ways to use the license fee program as an incentive for investment in domestic storage capability and desulfurization of crude oil.

23. Applications for import allocations exempt from license fees will continue to be submitted and allocations assigned according to the current annual cycle. Applications for import allocations subject to license fees will be accepted and processed by the Department of the Interior at any time.

24. After termination of the various temporary exemptions, there will be no differences in license fees or import restrictions for the various petroleum districts in the United States.

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WHAT THESE CHANGES WILL ACCOMPLISH

1. These changes would suspend oil import quota restrictions without abandoning the Mandatory Oil Import Program. They open the way for foreign imports to alleviate potential shortages of crude oil and finished products, without foreclosing the option of reimposing mandatory controls at some time in the future. Nor do they foreclose the option of auctioning some portion of import allocations should that become desirable. The intent is to maintain import control and accountability without restricting the flow of essential oil into the United States.

2. These changes provide for the implementation of a permanent oil import program that leaves no uncertainty as to the U.S. Governments's long-run policy intent to assure the availability of adequate supplies of crude oil and finished products while, at the same time, providing the incentive for increased investment in domestic exploration and production and refinery construction.

To do this, the program establishes over time a clear differential between the prices of domestic and foreign petroleum in the United States that favors U.S. oil production and refining. Various changes in these incentives are spelled out in advance so that the oil industry will have a reasonable degree of certainty under which to make major new investments in U.S. drilling and refinery construction. These incentives will be assessed from time to time and, if necessary, increased to assure that they are sufficient to encourage domestic investment.

3. This approach minimizes the impact on oil prices during the next two years. The license fees will be increased over time. In any event, imports subject to the proposed license fees during 1973 are expected to be such a small percentage of the nation's total oil requirements as to have little, if any, impact on consumer prices. Moreover, there is adequate flexibility under current oil price controls to allow such price movements should they be necessary.

The trend toward increased prices will begin in 1974, when the nation is expected to require an additional one million barrels per day of petroleum to satisfy its demand. Should price controls be extended in any form, adequate and timely consideration could be given to the potential impact of license fees on prices and the impact of continuation of price controls on the effectiveness of the changes discussed here.

There may be some upward price movement for distillate fuels related to license fee charges in 1973. Because the nation does not have the refinery capacity to satisfy its requirements for both gasoline this summer and heating oil next winter, under the license fee approach domestic refiners could be expected to maximize gasoline output over the next several months in favor of increased distillate imports. There are several reasons for this:

a. Distillates are more likely to be available from overseas due to foreign refinery yield patterns, although foreign supplies may not satisfy the sulfur specifications of U.S. environmental restrictions.

b. Prices for foreign distillates will be seasonally low over the next several months, whereas gasoline prices will not be.

c. Maximizing domestic gasoline output maximizes a refiners dollar return.

4. Implementation of license fees on May 1, 1973 would help to give value to unused 1973 import tickets, providing landlocked independent refiners with some leverage to bargain for domestic sweet crude oil. The current world-wide shortage of sweet crudes, coupled with rising foreign prices, has wiped out the value of the independent refiners' tickets and has led to many small refiners cutting back production for lack of refinery feedstock. Import licenses, in general, now have no exchange value because the landed price of foreign crudes is roughly equivalent or above domestic crude prices. Raising the value of independents' unused licenses should help the independents to bargain for additional sweet crude supplies. Moreover, the ability of the independent

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refiner to obtain additional fee-exempt licenses from the OIAB would, hopefully, enable him to obtain an adequate number of tickets necessary to arrange exchanges with the majors under present-day price relationships.

5. Under the proposed license fee program, the subsidy provided by exemption of 1973 allocations for all refiners would be phased out over seven years with the initial reduction coming in the second year. The intent is to provide refiners both the time and the incentive to retool their refineries to run sour crudes or to develop or contract for adequate sweet crude supplies for the long-term.

6. This approach also gives value to 1973 import allocations issued by the Oil Import Appeals Board to independent jobbers and marketers, enhancing their ability to bargain for products. The OIAB will continue to hear appeals from this sector of the industry to make certain that no undue hardships occur as a result of tight product supplies. In the long-run, the license fee approach will further benefit independent jobbers and marketers by encouraging additional refinery capacity, which will make products more readily accessible.

7. This approach also gives all importers the opportunity to negotiate long-term contracts, and thereby lower prices, for their crude oil and product supplies. This should be especially beneficial to deepwater terminal operators in District I.

CHART I: This graph shows the average American citizen's increasing demand for energy from all sources in British Thermal Units.

CHART II: The data in "Energy and Oil Consumption Per Capita" compares an American's consumption of energy and oil with consumption in other countries. The citizens of industrial countries consume far more per capita than the rest of the world. As income increases in these other countries, one may expect a sharp increase in total world demand. The non-petroleum or other sources of energy are expressed as the energy produced by a barrel of petroleum.

CHART III: This chart illustrates the projected changes in the sources of the United States' supply of energy. A significant growth is expected in the amount of energy supplied by nuclear sources. A significant increase is also expected in the amount supplied from imported oil and gas.

CHART IV: This diagram shows the projected size of the country's increasing reliance on foreign sources of petroleum.

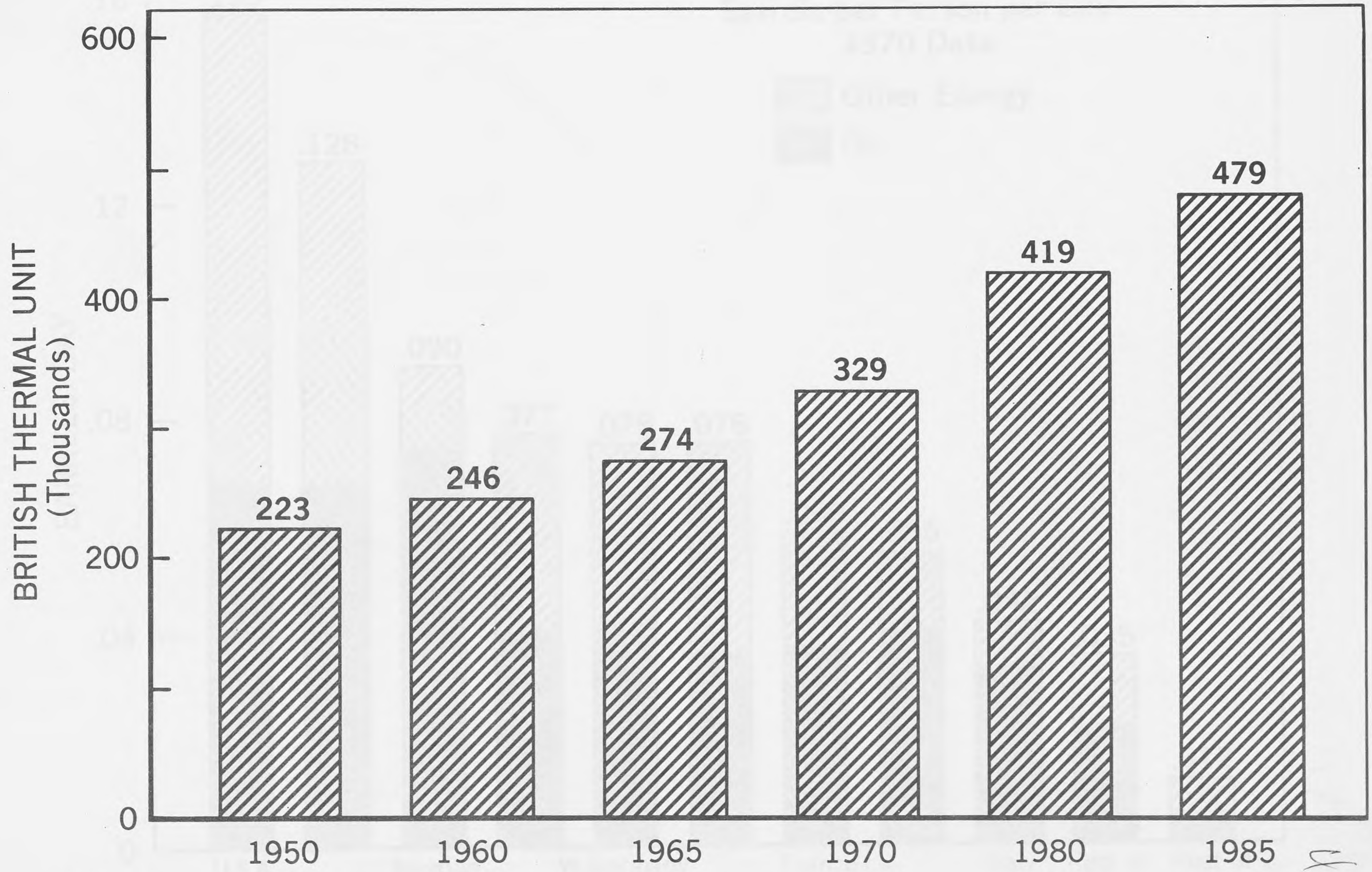
CHART V: This map shows the transportation costs per barrel and the shipping time needed to import oil from the major oil producing countries. It has been estimated that the construction of superport facilities would save a total of $485 million per year on these shipping costs.

Source: U. S. Treasury
April 17, 1973

CHART I

U.S. PER CAPITA CONSUMPTION OF ENERGY

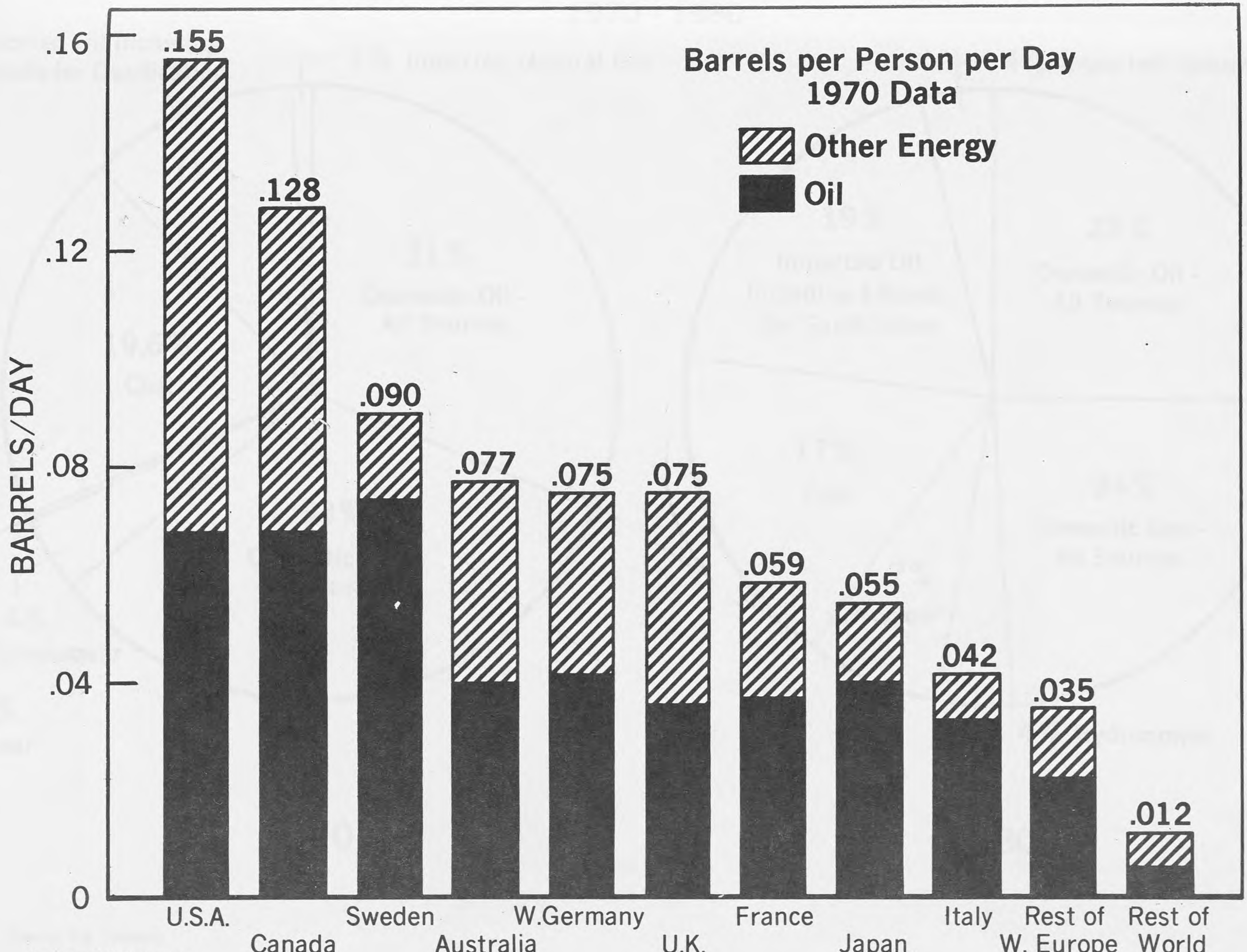
1950 - 1985



Source: U.S. Treasury

CHART II

ENERGY AND OIL CONSUMPTION PER CAPITA

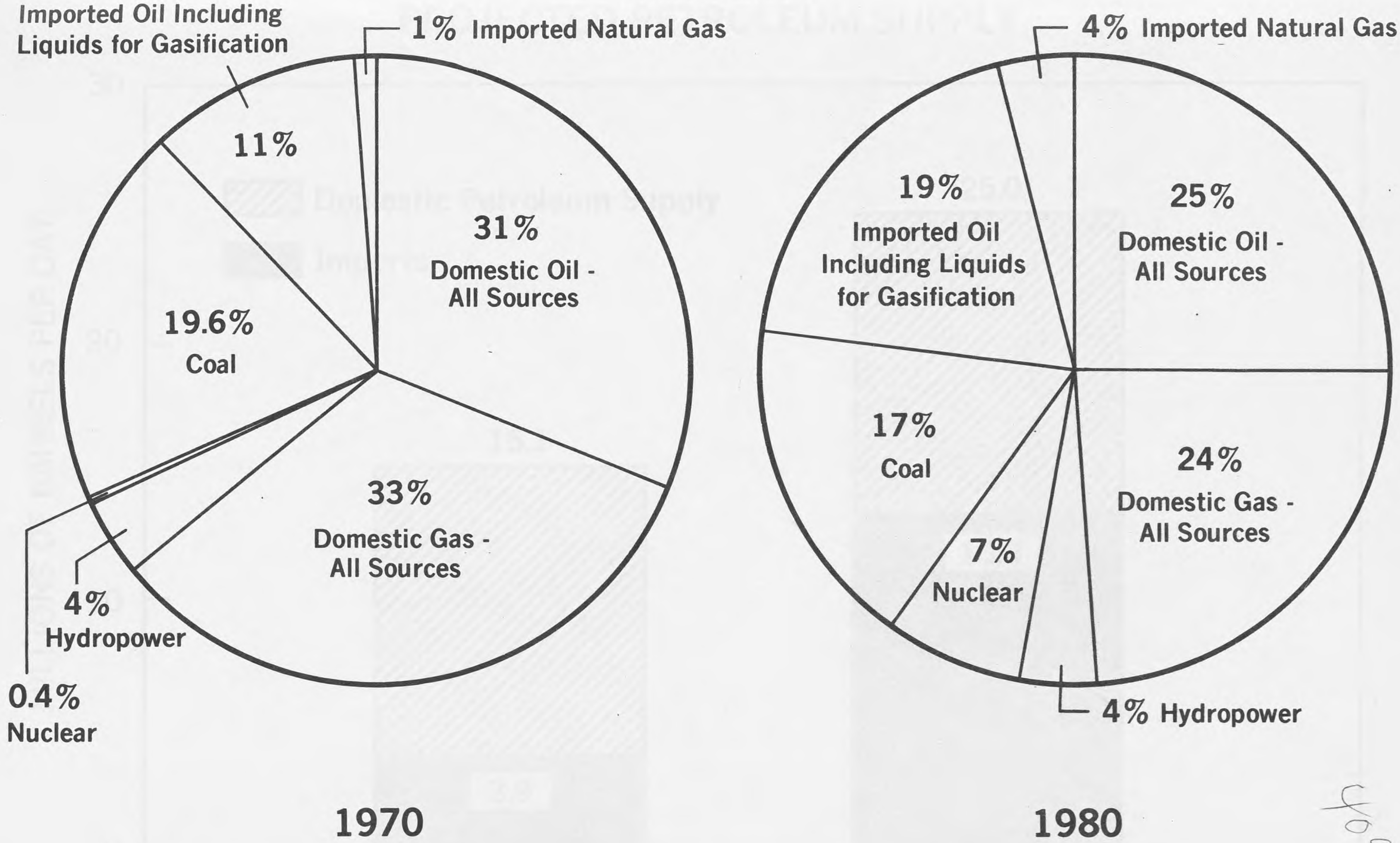


Source: U.S. Treasury

CHART III

U.S. ENERGY SOURCES

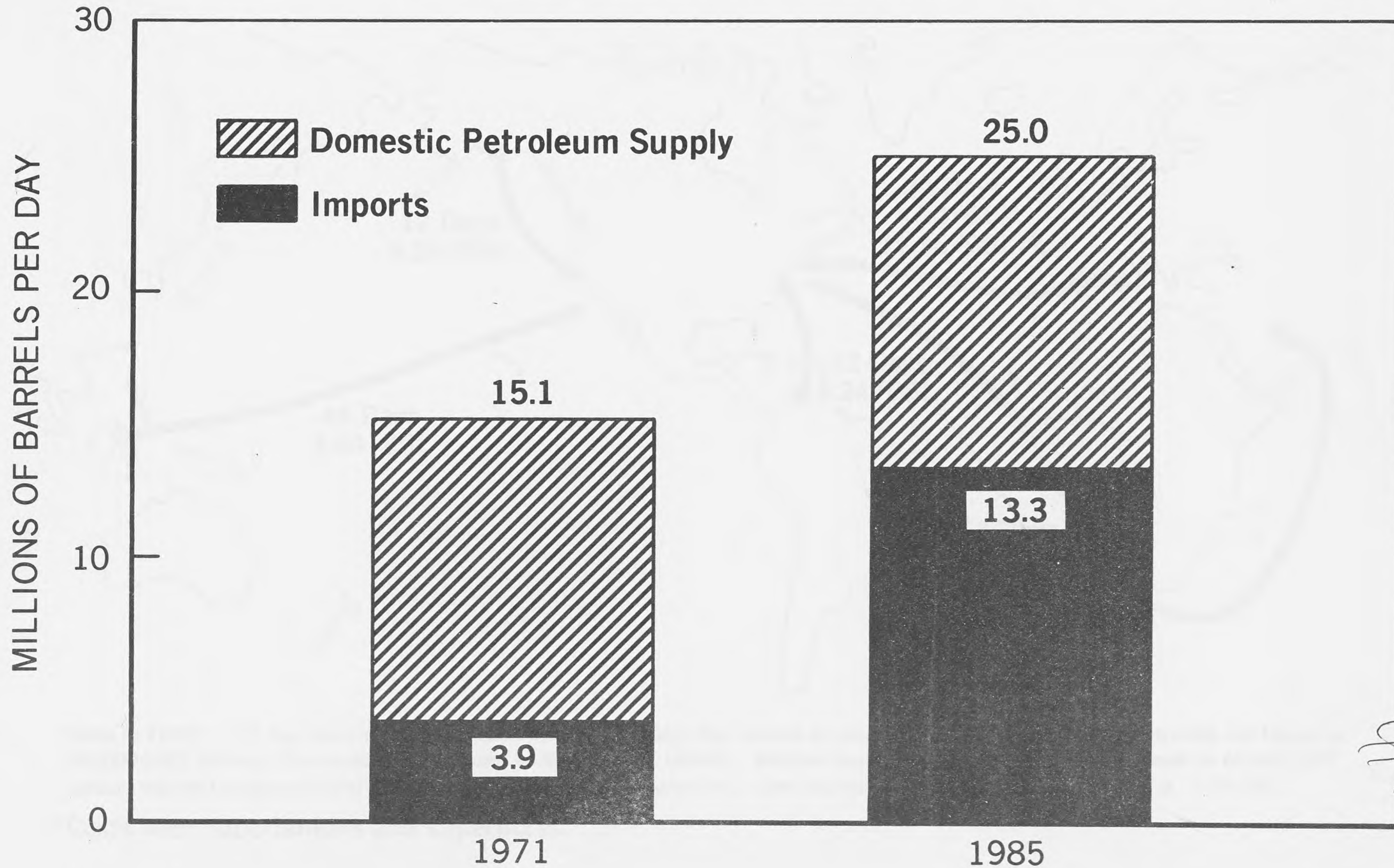
1970 - 1980



Source: U.S. Treasury

CHART IV

PROJECTED PETROLEUM SUPPLY

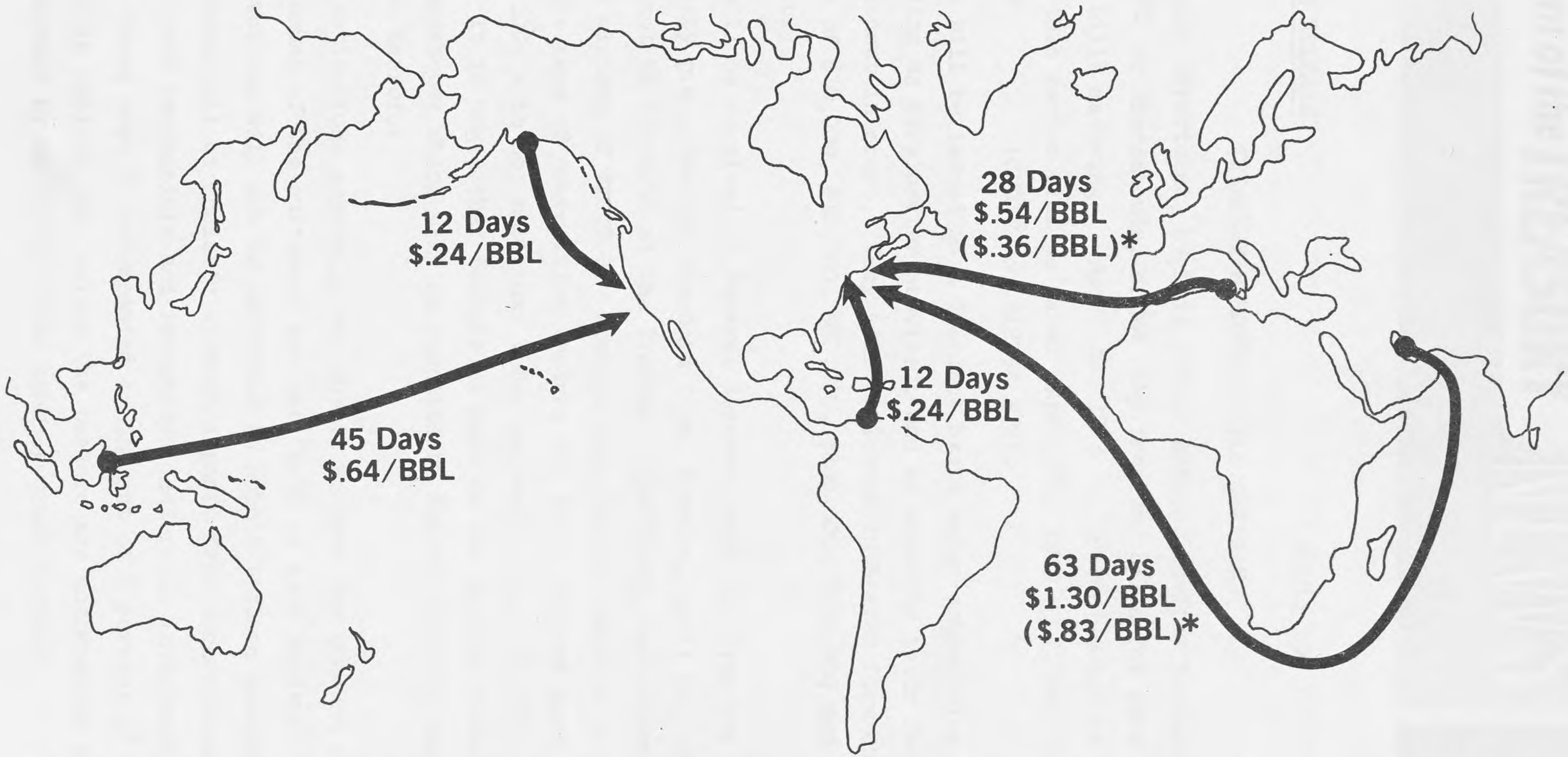


Source: U.S. Treasury

CHART V

TRANSPORTATION OF U.S. PETROLEUM IMPORTS 1972

Days per Voyage and Costs per Barrel
With and Without Superports



Costs in $1972: U.S. flag vessels between Alaska and U.S. . Foreign flag vessels on other routes. Alaskan & Indonesian costs are based on 160,000 DWT tankers. Venezuelan cost is based on 65,000 DWT tankers. Mediterranean and Persian Gulf cost are based on 65,000 DWT tankers with NO superport (and 375,000 DWT tankers with superports); does not include transshipment surcharge of $.14/BBL.

***Costs with supertankers and superports.**

Source: U.S. Treasury

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

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FOR IMMEDIATE RELEASE April 18, 1973

TREASURY'S MONTHLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders for $1,800,000,000, or thereabouts, of 344 -day Treasury bills for cash and in exchange for Treasury bills maturing April 30, 1973 , in the amount of $1,700,030,000. The bills of this series will be dated April 30, 1973 , and will mature April 9, 1974 (CUSIP No. 912793 SP2).

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, Tuesday, April 24, 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 April 30, 1973, in cash or other immediately available funds or in a like face amount of Treasury bills maturing April 30, 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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Statement by Secretary Shultz - April 5, 1973

Everyone is upset about food prices, including my wife and I. We are trying to do something about it here in the Administration. We think that the basic way to get at this problem is through increasing the supply so that the housewife will find shelves full of food at reasonable prices. In response to market forces farmers are increasing their plantings of crop, and building up their livestock herds. In addition, starting last June but mostly in December and January, the agricultural policies of the Federal government had been adjusted sharply and comprehensively to insure that this increase in supplies takes place as quickly as possible. Set aside acreage of crop land has been reduced by about 50 million acres to permit greater production of grain; government-owned stocks of grains are being sold; all government loans on farm-stored grains are being terminated; meat import quotas which were first suspended in June 1972 have been suspended for all of 1973.

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Thus far in 1973, meat imports are up 20 percent compared with the same period last year. President Nixon announced last week he would ask the Congress for legislation to suspend the tariffs on red meats. Additional imports of non-fat dried milk have been permitted and the Tariff Commission is currently investigating the possibility of raising cheese import quotas by 50 percent. All direct export subsidies on agricultural products have been ended. These and other measures will increase the supply and it is the action of supply interacting with our demand for food products which will bring prices under control.

I think and I know the President thinks that a ceiling on Federal spending is essential at this time. I know the issue isn't so much spending and the desirability of this project or that but rather taxing because sooner or later money that the Federal government spends has got to be raised through taxes. And the President wants to keep taxes down. He doesn't want to raise them. He wants to keep taxes down. And therefore right now the best way to do that is to keep spending down by imposing a ceiling - a stiff ceiling - on Federal spending.

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

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FOR IMMEDIATE RELEASE April 18, 1973

JAMES B. CLAWSON
APPOINTED DEPUTY ASSISTANT SECRETARY FOR
ENFORCEMENT, TARIFF AND TRADE AFFAIRS, AND OPERATIONS

Treasury Secretary George P. Shultz today announced the appointment of James Clawson of Downey, California, as Deputy Assistant Secretary for Enforcement, Tariff and Trade Affairs, and Operations under Assistant Secretary Edward L. Morgan.

Clawson, 33, previously served as a Staff Assistant to the President for Domestic Affairs, being appointed in October of 1971. He was also Deputy Director of the President's Cabinet Committee on Education and had been on the Committee staff since January 1970. From April 1969, to April 1970, he was the Executive Assistant to the General Counsel at the Department of Health, Education and Welfare. From 1966 to 1969, he practiced law in Los Angeles, California.

Born in Safford, Arizona, Mr. Clawson was educated in public schools in Compton, California. He attended the University of Southern California where he received a BSL in 1964 and a JD from the School of Law in 1966.

Mr. Clawson is married to the former Jeannette Giles of Downey, California. The Clawsons have three children and reside in Gaithersburg, Maryland.

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Department of the TREASURY NEWS
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FOR IMMEDIATE RELEASE April 18, 1973

TREASURY ANNOUNCES ACTIONS ON
THREE INVESTIGATIONS UNDER THE ANTIDUMPING ACT

Assistant Secretary of the Treasury Edward L. Morgan announced today actions on three investigations under the Antidumping Act of 1921, as amended.

In the first two cases there are final determinations of sales at less than fair value, and in the third case there is a final discontinuance.

These decisions will appear in the Federal Register of April 19, 1973.

In the first case Assistant Secretary Morgan announced that printed vinyl film from Argentina is being, or is likely to be, sold at less than fair value within the meaning of the Antidumping Act. Printed vinyl film is produced in a variety of colors and pattern designs and is used for shower curtains, draperies, and many other purposes. 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 printed vinyl film from Argentina which have not been appraised and on which dumping margins exist. A notice of "Withholding of Appraisement" was issued on January 18, 1973, which stated that there was reasonable cause to believe or suspect that there were sales at less than fair value. During the period of January 1971 through January 1973 imports of printed vinyl film from Argentina were valued at approximately $324,500.

In the second case Treasury announced that printed vinyl film from Brazil is being, or is likely to be, sold at less than fair value within the meaning of the Antidumping Act. 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

(OVER)

injury, dumping duties will be assessed on all entries of printed vinyl film from Brazil which have not been appraised and on which dumping margins exist. A notice of "Withholding of Appraisement" was issued on January 18, 1973, which stated that there was reasonable cause to believe or suspect that there were sales at less than fair value. During the period of October 1971 through January 1973 imports of printed vinyl film from Brazil were valued at approximately $176,500.

In the third case the Department announced a final discontinuance of the antidumping investigation on high speed tool steel from Sweden. On January 16, 1973, a "Withholding of Appraisement" was published which stated that there was reasonable cause to believe or suspect that there were sales at less than fair value. This notice also invited interested parties to submit written views or request an opportunity to present their views orally. After consideration of all written and oral arguments presented, the investigation now indicates that the sales at less than fair value were only minimal in relation to the volume of imports. Formal assurances have been offered stating that no further less than fair value sales would be made. Accordingly, a final discontinuance is proper at this time. Stora Kopparberg AB, which was excluded from the withholding of appraisement, is likewise excluded from this discontinuance. During calendar year 1972, imports of high speed tool steel from Sweden were valued at approximately $4.3 million.

# # #

FOR USE IN PM'S THURSDAY, April 19

FYI the following "Op-Ed" piece will appear in Thursday morning's Wall St. Journal. Please credit them if you use.

April 17, 1973

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WHY NOT RIGID CONTROLS?

by Edgar R. Fiedler

Asst. Secretary of the Treasury for Economic Policy

Why not impose more rigid controls on prices and wages?

Prices are surging upward in a number of economic sectors; doesn't that call for more stringent controls? The changeover to the "self-administered" Phase III has been widely regarded as a failure; doesn't that call for a new system of tighter controls? Certainly there is a great demand for tougher controls -- from consumer groups, from organized labor, and from other sources. And although the Congress decisively rejected proposals to reinstitute a freeze and to broaden it to encompass other sectors of the economy, there is a sizeable minority of Congressmen who are demanding more comprehensive, more rigid and more permanent controls over prices and wages.

Well, why not?

There are, I think, two fundamental reasons for resisting the call for tighter controls. One reason is liberty -- the old-fashioned principle that the individual is the important unit in our society, that his freedom is something to be cherished, and that the Government's power over him should

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be limited. To me, this principle is a persuasive reason for opposing a move to inflexible, permanent controls.

The second fundamental reason is economic efficiency. Our economy is so complex and changes so rapidly that a system of strict controls on prices and wages applied over a long period of time would damage it seriously. History tells us that a comprehensive system of controls would require a gigantic bureaucracy here in Washington and would produce endless ribbons of red tape throughout the economy. History also tells us that the major economic impact of controls would be inefficiency and inequity.

Those of us who remember World War II know what the comprehensive wage and price controls of that era produced. We remember the restrictions against changing jobs and the shortages and rationing of meat, sugar, gasoline and many other products. We remember also the black markets and other illegal efforts to ircumvent the controls.

Those World War II controls produced great waste in the economy and great inconvenience for the public. But we put up with such problems for patriotic reasons; we were willing to make the sacrifice to help the war effort.

I think it is obvious that today the public would not accept the problems that rigid controls inevitably create. There are no patriotic or other reasons that would lead people to put up with, for example, shortages of basic consumer goods.

The Phase II Record

But the World War II experience may not be completely applicable to 1972 and 1973. What, then, can we say about the present controls? Have they done any damage during the year and a half that they've been in effect? Have they hurt productive efficiency and created other problems?

The answer to that is, in the broad general sweep of things, no, but in many specific cases, yes, very definitely. When we look at the economy as a whole, we do not find that productivity growth has been slowed, or any other substantial evidence that the controls have done widespread damage. There are two reasons for this: first, the control system in Phase II was designed wherever possible to be flexible and, second, the economy was operating with considerable slack. These conditions minimized the troublesome effects of the program.

But while the stabilization program did not produce widespread economic distortions during 1972, it did produce many individual instances of inequity and inefficiency. And the

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economy was growing so fast that more and more of these difficulties were beginning to show up. Had we continued Phase II through the current year, with its rapid growth pushing many industries close to full utilization of capacity, these dislocations would have become numerous and serious enough to injure the economy as a whole. To demonstrate that this is not just a bogeyman in the closet, let me cite a few examples of what happened during 1972.

1. The most disturbing and most wasteful difficulties created by the controls program were in the lumber and plywood industry, which was under heavy demand pressure from the boom in homebuilding. There were numerous reports that production was held 5 to 10 percent below maximum, primarily to avoid violating the Price Commission's profit margin rule. Sawmills were performing minor operations on standard cuts of lumber to create "new products" that were exempt from price control. Phony export and re-import transactions were recorded, without any lumber ever leaving the country. Tricks like these kept the Internal Revenue Service working overtime tracking down violators. And in another effort to circumvent the controls, railroad cars full of lumber were being shipped around the country from one

middleman to another, accumulating markups, which were individually legal, but not getting the lumber to the final user.

2. Despite the fairly high levels of unemployment that prevailed during 1972, we heard a number of complaints from businessmen that their employees were being lured away by higher wages to a competitor's plant down the road, and that they were prevented by the controls from raising wages to meet the competition in order to stop the pirating of their work force. When businessmen complain that the wages they pay are too low, well, that's a pretty sure sign that the controls are interfering with the efficient operation of the labor market.

3. Another inefficiency that was becoming more significant as the program progressed was the red tape that both labor and business found themselves tangled up in. By the end of 1972, for any pay or price request that was at all more than routine, the waiting lines at the Pay Board and Price Commission were getting longer and longer.

4. The controls had a perverse impact on petroleum refining, creating an incentive to distill less fuel oil than necessary and more of some other products. This helped make the fuel oil shortage last winter a little worse than it otherwise would have been.

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5. The controls also produced serious difficulties for commodities that are traded in international markets. When the world price rises above the ceiling price of domestic producers, a powerful incentive is created to ship all domestic production out of the country, irrespective of the need for it at home. This situation developed for soybean meal and phosphate fertilizer late in 1972 and threatened to create severe shortages of those commodities here in the United States.

6. The Phase II profit margin limitation created a special kind of problem in some industries. One company, for reasons unrelated to its major product line, would be up against its profit margin limit and would be unable to raise prices on any product. The pressure of competition would, then, prevent other firms in the industry from raising their prices, despite the fact that their costs had increased sharply.

The classic example of this problem is the wine industry, where the Gallo Company had recently developed a very profitable new line of fruit-based wines. Because Gallo was up against its profit margin ceiling, it could not raise prices on its grape wines, despite the fact that a poor crop had sent the price of grapes up some 50 percent. This increase in costs was not too hard on Gallo, but it did hurt other vintners badly.

These other vintners generally produce only grape wines and thus would have been justified in raising prices because of the increased costs, but they could not do so because of competition from Gallo. These other vintners, then, saw their profits disappear very quickly and turn to losses. This same situation developed in a number of other industries, including baking, brewer's yeast, linens, pool tables and others.

The six examples described above are only a few of the many economic distortions and wasteful changes in normal business practices that the controls produced during 1972. We heard endless complaints from labor, business and consumers about their troubles, and the complaints were growing in frequency and intensity as the year progressed. Moreover, these difficulties mounted despite our best efforts to maintain a flexible and equitable program, and despite the fact that farm products, interest rates, most rents, wages of low-income workers, and many other sectors of the economy were exempt altogether from the regulations.

Miseducating the People

The storm of protest over Phase III and the great demand that exists to move toward across-the-board price controls indicates that the freeze and Phase II have had a profound effect on the attitudes of the American people. It tells us that what the entire stabilization effort has done, more than anything else, is to miseducate the public to believe that controls are <u>the</u> way to solve the problem of inflation.

That is a distressing result. To me, it is clear that a comprehensive system of rigid price and wage controls applied over an extended period would wreak havoc on the basic structure of our economy.

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

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FOR IMMEDIATE RELEASE April 18,1973

EMERGENCY LOAN GUARANTEE BOARD

The Emergency Loan Guarantee Board today approved the request of Lockheed Aircraft Corporation and its lending banks for permission for the company to borrow from the banks an additional $20 million under Government guarantee, which, when drawn down, will bring the total permitted borrowings under Government guarantee up to $170 million. Lockheed is authorized under the terms of its agreement with the Emergency Loan Guarantee Board to borrow from its lending banks up to $250 million under Government guarantee.

The Board also gave its consent, which is required under the 1971 Agreement between Lockheed, its lending banks and the Board, to a request by Lockheed to acquire the assets of the Controls Division of the Leach Corporation.

The Board also announced that from its inception on August 9, 1971, through April 10, 1973, it received fees of $4,422,839.22 from Lockheed under the Government guarantee commitment.

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

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ADVANCE FOR RELEASE IN MORNING NEWSPAPERS
MONDAY, APRIL 23, 1973

UNITED STATES DELEGATION TO THE
ANNUAL MEETING OF THE ASIAN DEVELOPMENT BANK
TO BE LED BY UNDER SECRETARY PAUL A. VOLCKER

Paul A. Volcker, Under Secretary of the Treasury for Monetary Affairs, will head the United States Delegation to the sixth annual meeting of the Asian Development Bank in Manila April 26-28.

Under Secretary Volcker will be Temporary Alternate Governor for the United States, representing Treasury Secretary George P. Shultz, who is the U.S. Governor of the Bank.

The United States delegation, which leaves for Manila today, also will include John M. Hennessy, Assistant Secretary of the Treasury for International Affairs, Herman Barger, Deputy Assistant Secretary, Bureau of East Asian and Pacific Affairs, Department of State, and Ambassador Artemus E. Weatherbee, U.S. Director of the Bank at its Manila headquarters.

Congressional Advisers will include U.S. Reps. Clarence D. Long, D-Md., and Silvio O. Conte, R-Mass., of the House Appropriations Committee, and U.S. Reps. Richard T. Hanna,

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D-Calif., Tom S. Gettys, D-S.C., Garry Brown, R-Mich., and Lawrence G. Williams, R-Pa., of the House Banking and Currency Committee.

The Asian Development Bank was founded in 1966 to help accelerate economic growth of developing Asian nations. Membership includes 23 Asian nations as well as 14 non-Asian countries. The bank has nearly $1 billion outstanding in 118 loans. The bank also has provided technical assistance to 15 countries totaling $9.8 million, and has financed or contributed to 15 regional efforts such as a regional transportation study. Enroute to Manila, the U.S. delegation will visit several projects completed with the bank's assistance.

Following the bank meeting, Under Secretary Volcker plans to visit a number of other Far Eastern countries to discuss trade and monetary affairs. The schedule for these visits is not complete.

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Department of the Treasury

to

Office of Public Affairs

room date 4/19/73

MEMO TO CORRESPONDENT:

I think you will find the attached article by Ed Fiedler on controls useful and interesting.

JAL

Joe Loftus

Attachment

Special Consultant to the Secretary (Public Affairs)
Joseph A. Loftus
room 2324
ext. 5252

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Department of the TREASURY NEWS
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FOR IMMEDIATE RELEASE April 20,1973

PAUL A. VOLCKER
PRESENTED
ALEXANDER HAMILTON AWARD

Secretary of the Treasury George P. Shultz today presented the Alexander Hamilton Award to Paul A. Volcker, the Under Secretary of the Treasury for Monetary Affairs.

Presented for "outstanding and unusual leadership in the work of the Treasury," the Alexander Hamilton Award, which includes a gold medal, is conferred only on recipients whom the Secretary personally designates. It is Treasury's highest award. Mr. Volcker previously received Treasury's Exceptional Service Award in 1965.

Mr. Volcker's citation reads:

"As Under Secretary for Monetary Affairs, Paul A. Volcker has served the Treasury with exceptional distinction for more than four years as overseer of the Government's financing operations and as the architect and negotiator of U.S. international monetary initiatives. Three Secretaries of the Treasury have relied on his wise counsel and his administrative talents during a period of extreme change and challenge in financial affairs.

"In his responsibility for the financing activities both of the Treasury and of other agencies, Paul Volcker has saved millions of dollars for the taxpayers by developing more effective and economic ways to raise funds for the operations of the Government.

"In the field of international finance Paul's intellectual contributions have provided the basis for the progress which has been made and for the negotiations which continue. He was a major contributor to the formulation of the New Economic Policy of 1971. He was in the forefront of the negotiation of the comprehensive exchange rate realignments in 1971 and 1973. His constructive analyses provide the framework for the negotiations now underway in the Committee of Twenty to establish the international monetary system upon which the world will rely for years to come.

"Paul has given unsparingly of himself in conferring a new stature upon the Office of Under Secretary of the Treasury for Monetary Affairs."

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

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FOR IMMEDIATE RELEASE April 20, 1973

CHARLS E. WALKER
PRESENTED
ALEXANDER HAMILTON AWARD

Secretary of the Treasury George P. Shultz today presented the Alexander Hamilton Award to Charls E. Walker, former Deputy Secretary of the Treasury.

Presented for "outstanding and unusual leadership in the work of the Treasury," the Alexander Hamilton Award, which includes a gold medal, is conferred only on recipients whom the Secretary personally designates. It is Treasury's highest award.

Dr. Walker's citation reads:

"As the first Deputy Secretary of the Treasury, and prior to that as Under Secretary, Charls E. Walker gave distinctive leadership to the Department under three Secretaries during the first Nixon Administration.

"His broad background in economics, finance, banking, and government operations made him uniquely qualified to deal with a wide range of Treasury problems, including tax reform, revenue sharing, and a variety of legislative matters. A rare ability to articulate complex economic problems in simple language made him an unusually effective witness before Congressional Committees and an excellent spokesman for the Administration in explaining economic matters to the public.

"Dr. Walker's instinct for getting to the heart of a problem and his willingness to make prompt decisions won for him the respect and admiration of those who served under him. He played a key role in attracting top staff people to the Treasury and led them in such a way that the Department's reputation for excellence was widely enhanced. His service to the Treasury and the nation will long be remembered by those he served so well and by those who worked with him and for him."

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FOR IMMEDIATE RELEASE April 20, 1973

MARTIN R. POLLNER RESIGNS AS DEPUTY ASSISTANT SECRETARY

Treasury Secretary George P. Shultz has accepted with "regret and reluctance" the resignation of Martin R. Pollner, Deputy Assistant Secretary for Enforcement, and Director, Office of Law Enforcement. Mr. Pollner is leaving the Treasury Department to become the United States Representative to the International Narcotics Control Board at the United Nations for the term beginning March 1974, and to resume the practice of law as a partner in the New York law firm of Amen, Weisman and Butler.

In his letter to Mr. Pollner Secretary Shultz wrote, "your dedication and effective service to the Treasury under three Secretaries -- David Kennedy, John Connally, and myself" -- have contributed to the success of the Nixon Administration and the country." Mr. Pollner has been with the Treasury Department since June of 1970 when he was appointed Director, Office of Law Enforcement. He was named Deputy Assistant Secretary in August, 1972.

During his term of office, Mr. Pollner played a major role in institutionalizing within the Office of the Secretary supervision of the diverse Treasury-wide law enforcement activities. He also had a leading role in establishing the International Financial Crime and Frauds Program, and the Treasury/IRS Narcotics Traffickers Program, as well as contributing to the expansion and increased responsiveness of U.S. participation in INTERPOL.

Mr. Pollner, a native of New York, is a graduate of City College of New York and the Brooklyn Law School. He was admitted to the Bar in November, 1960. Prior to joining the Treasury Department, he had been associated with Mudge, Rose, Guthrie and Alexander in New York and had served in the Justice Department and as a Federal prosecutor with the United States Attorney's Office for the Eastern District of New York.

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

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FOR RELEASE AT NOON April 20, 1973

TREASURY ANNOUNCES ACTIONS ON THREE INVESTIGATIONS UNDER THE ANTIDUMPING ACT

Assistant Secretary of the Treasury Edward L. Morgan announced today actions on three investigations 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 tentative negative determination. These decisions will appear in the Federal Register of Monday, April 23, 1973.

In the first case Assistant Secretary Morgan announced that the Treasury is withholding appraisement on elemental sulphur from Canada. 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 that 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 withholding of appraisement. During the period of January 1971 through December 1972 imports of elemental sulphur from Canada totaled approximately $18.5 million.

In the second case the Treasury is withholding appraisement on papermaking machinery from Sweden. A final Treasury decision in this investigation will likewise be made within three months. If a determination of sales at less than fair value were made in this investigation, the case would also be referred to the Tariff Commission, which would consider whether an American industry was being injured. During the period of January 1968 through May 1972 imports of papermaking machinery from Sweden totaled approximately $10.8 million.

In the third case the Department issued a tentative determination that papermaking machinery from Finland is not being, nor is likely to be, sold at less than fair value within the meaning of the Antidumping Act. The investigation revealed 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 1968 through May 1972 papermaking machinery from Finland imported into the United States was valued at approximately $19.3 million.

These three cases were delayed pending resolution of certain complex issues relating to the treatment of possible sales below cost of production. In order to permit adequate consideration of the possible impact of these issues on these cases, a "Notice of Extension of Time for Investigations" was published in the Federal Register of January 19, 1973. Today the Treasury Department issued a "Memorandum for Correspondents" with an attached Federal Register notice dealing with these issues.

# # #

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MEMORANDUM FOR CORRESPONDENTS: April 20, 1973

The attached notice to be published in the Federal Register on Monday, April 23, sets out Treasury's decision regarding the extent to which price information relating to sales below cost of production should be used in determining fair value within the meaning of the Antidumping Act of 1921, as amended.

In a technical explanation, the Treasury noted that the conclusion is based on the statutory definition of "foreign market value" in the Antidumping Act.

Although the statute does not define "fair value," it is precise in its definition of "foreign market value" for purposes of assessing dumping duties. In order to avoid determining that sales at less than fair value have taken place in situations where dumping duties are not assessable, the Treasury Department has, over many years, construed "fair value" in the same manner as "foreign market value," as defined in the Act.

# # #

DEPARTMENT OF THE TREASURY

BUREAU OF CUSTOMS

[19 CFR Part 153]

ANTIDUMPING; FAIR VALUE DETERMINATION

Sales Below Cost of Production

Notice was published in the Federal Register on May 5, 1972 (37 F.R. 9125; F.R. Doc. 72-6995), that the Treasury Department was undertaking a review of the extent to which price information relating to sales below cost of production should be used in determining "fair value" within the meaning of section 201(a) of the Antidumping Act, 1921, as amended (19 U.S.C. 160(a)).

That notice stated that information before the Bureau of Customs in respect of pending antidumping investigations indicated the possibility that foreign merchandise was being, or was likely to be, sold to the United States, in the home market, and for exportation to countries other than the United States at prices below their cost of production. Interested parties were invited to submit written comments within 30 days as to whether, and under what circumstances, sales below cost of production in the home market or for exportation to countries other than the United States should be disregarded in the ascertainment of "fair value" within the meaning of section 201(a) of the Antidumping Act and whether, if such sales were disregarded, resort to "constructed value" (section 206 of the Antidumping Act) would be appropriate.

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The period of time for submission of comments was extended to 60 days by a notice published in the Federal Register on June 8, 1972 (37 F.R. 11475; F.R. Doc. 72-8690).

All comments received have been thoroughly considered and the Department, after an intensive examination of the question, has concluded that the fact that foreign merchandise is sold in the home market or for exportation to countries other than the United States at prices less than the cost of production is not a sufficient basis for disregarding such prices in the determination of the "fair value" of such merchandise. Accordingly, the prices at which foreign merchandise is sold in the home market or for exportation to countries other than the United States will be used in determining the "fair value" of such merchandise, regardless of whether the prices represented less than the cost of production, unless the Department concludes that a failure of the sales in question to meet the standards set forth for the determination of "foreign market value" (section 205 of the Antidumping Act) precludesthe use of such sales in determining "fair value".

Commissioner of Customs

Approved:

APR 19 1973

Assistant Secretary of the Treasury

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

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ATTENTION: FINANCIAL EDITOR

April 23, 1973

FOR RELEASE 6:30 P.M.

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced that the tenders for two series of Treasury bills, one series to be an additional issue of the bills dated January 25, 1973 , and the other series to be dated April 26, 1973 , which were invited on April 17, 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 July 26, 1973		:	182-day Treasury bills maturing October 25, 1973	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	98.435	6.191%	:	96.664 a/	6.599%
Low	98.408	6.298%	:	96.639	6.648%
Average	98.420	6.251% 1/	:	96.648	6.630% 1/

a/ Excepting 5 tenders totaling $1,710,000
54% of the amount of 91 -day bills bid for at the low price was accepted
61% of the amount of 182 -day bills bid for at the low price was accepted

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	:	Applied For	Accepted
Boston	$ 19,470,000	$ 9,470,000	:	$ 14,095,000	$ 3,395,000
New York	2,867,230,000	2,015,830,000	:	3,050,640,000	1,621,335,000
Philadelphia	36,075,000	16,075,000	:	5,745,000	5,345,000
Cleveland	26,160,000	26,160,000	:	24,745,000	8,945,000
Richmond	9,490,000	9,490,000	:	5,565,000	5,265,000
Atlanta	26,110,000	22,810,000	:	21,520,000	9,765,000
Chicago	246,955,000	140,105,000	:	298,115,000	90,510,000
St. Louis	68,615,000	37,615,000	:	61,240,000	15,040,000
Minneapolis	22,380,000	18,380,000	:	19,505,000	5,505,000
Kansas City	38,850,000	27,360,000	:	31,105,000	12,095,000
Dallas	37,895,000	21,975,000	:	32,490,000	6,360,000
San Francisco	73,895,000	54,895,000	:	275,125,000	16,600,000
TOTALS	$3,473,125,000	$2,400,165,000 b/		$3,339,890,000	$1,800,160,000 c/

b/ Includes $211,105,000 noncompetitive tenders accepted at the average price of 98.420
c/ Includes $107,260,000 noncompetitive tenders accepted at the average price of 96.648
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 6.44% for the 91 -day bills, and 6.96% for the 182-day bills.

FOR IMMEDIATE RELEASE APRIL 18, 1973 434

OFFICE OF THE WHITE HOUSE PRESS SECRETARY

THE WHITE HOUSE

PRESS CONFERENCE
OF
SECRETARY OF THE TREASURY GEORGE SHULTZ
CHARLES DiBONA, SPECIAL CONSULTANT TO THE PRESIDENT
WILLIAM E. SIMON, DEPUTY SECRETARY OF THE TREASURY

THE BRIEFING ROOM

11:29 A.M. EST

MR. ZIEGLER: You have copies of the President's message to Congress on energy.

The President met this morning for close to an hour with the bipartisan leadership to discuss the message. Secretary Shultz and Charles DiBona, the Special Consultant to the President on this subject, attended the leadership meeting and are here to take your questions, together with the Deputy Secretary of the Treasury, William E. Simon.

We will begin with comments by Secretary Shultz, and they will all be prepared to take your questions.

SECRETARY SHULTZ: I have had the privilege of meeting in recent weeks quite a few times with the Finance Ministers around the world. It has been quite striking to me in those meetings that it is as though there are two agendas; that is, we have our formal meeting and discuss the exchange rate system, and things of that kind, and then in the coffee breaks and at lunch, and so on, everybody wants to talk about the energy problem.

Finance Ministers, of course, see it in terms of the flows of dollars and the problems that that suggests. But the fact that it is so much on everybody's mind, not only here but abroad, suggests that this is a problem that is of great magnitude and importance. It represents a potential crisis which we can avoid if we take the proper steps, and I think that the President's message and the actions that are suggested represent a set of policies that can help us avoid a possible crisis, and these represent a set of policies that he is putting forward here today that we will build on as we move ahead.

Now, I think the strategy for the United States represented in this message is, in a sense, threefold: First, to build up our domestic energy resources in every way we can through an integrated set of policies involving incentives for prices, involving efforts to see how we can do the things we must do consistent with maintaining environmental standards that are important to us, and to seeing how best to use the great potential and abilities we have in research and development to achieve these ends. So this is Part 1 of the strategy.

Part 2: We all know, as you can see if you analyze the figures involved, that we have great immediate needs that are going to mean a considerably increased flow of imports,

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largely imports of oil. So we see that we have that immediate need, and our problem is to use the devices we have at hand so that the manner in which we import helps us encourage domestic production and refining and producing capacity.

Therefore, third, in developing in these two manners, we work toward self-sufficiency and thereby, as we approach it, we have the impact of making imports more reasonable in price and making us less vulnerable to possible interruptions to them.

That is the overall strategy. There are a great many items in the energy message. You have had it and looked at it, and I won't attempt to go through it all because it is lengthy and detailed and technical. Let me just mention a few items and then we will have questions.

First of all, on the oil import program, this is a program that has gradually become obsolete. It has become the subject of annual realignments. It has had frequent alterations to meet immediate needs and has the character of something that by this time has a patchwork quality to it, and that fact has led to a lot of uncertainty in people's minds in Government, industry and elsewhere about its future course, and that uncertainty is bad from the standpoint of developing our own domestic resources.

Therefore, the President has decided to make a very substantial change in the system, and this work was done under the chairmanship of William Simon, the Deputy Secretary of the Treasury, who is also Chairman of the Oil Policy Committee.

The change involves, first, the elimination of quantitative restrictions on imports of oil. Second, a movement to a license fee system for imports, and the structure of those fees is listed in the material that you have, a sort of two-tier structure which, on the one hand, is a transition phasing that will protect consumer prices and at the same time help maintain the position of independent refiners and others who have developed in part in response to the current system, and with special arrangements for people such as those in the petro-chemical industry who bring in feed stock and then export it out.

So that represents a major change in the oil import system, and the fact that we expect to see substantial imports suggests the importance, in the sense of integration of this package the President is presenting, of the material on deepwater ports, which also is listed in your material.

Second, by way of stimulating domestic production, we note that 40 percent of the estimated reserves of oil and gas of the United States are in the Outer Continental Shelf, so the President is putting forward here an aggressive program designed to triple the annual leases by 1979 so that we put ourselves in the position of taking advantage of these great reserves, and that we do so consistent, again, with environmental concerns.

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We will see in the Gulf Coast expansion of leasing beyond the 200 meter water depth, in the Pacific we will resume leasing beyond the Channel Islands based on individual environmental assessment. This will always be present.

In the Atlantic and in the Alaska Gulf, we will have a study led by the Council on Environmental Quality, which we expect to see completed in a year, and which will, we hope, enable us to move forward there.

I might say in connection with the desire to stimulate genuine exploration in this country, the President is also proposing the application of the principle of the investment tax credit to this area, and we would propose a tax credit for exploration and we believe we can define exploration adequately on the basis of seven percent for a dry hole and 12 percent for a wet hole. That is, we are going to pay off more highly for success. On the other hand, you must encourage risk taking and that means when somebody takes a risk and it doesn't pan out, they also should be taken account of.

Beyond this, we have the Alaska pipeline. The identified reserves in Alaska, if turned into a flow, would be the equivalent of a third of our current imports, just to give an idea of the importance of what is in Alaska, and I believe myself that there are good grounds for thinking that these identified reserves do not represent the full amount that is there.

And so, I think this right-of-way legislation that is now up is of great importance and the President strongly supports that and we must get this Alaska pipeline built.

In the field of natural gas we have another type of example. Here is a fuel that is our best fuel from the standpoint of the environment and yet, we have priced it at such a level that, on the one hand, we encourage relatively inefficient use and on the other hand, we discourage the enlargement of our supply.

It is basically a price problem, and so the President is proposing competitive -- as distinct from regulated -- price treatment of new natural gas, with a reservation that the Secretary of the Interior can impose a ceiling according to certain criteria, if it looks as though it is necessary.

Now, I might just say from the standpoint of the consumer, it is important to note, first, that it is better to have some gas at a higher, though reasonable, price than no gas at a low price. We are getting familiar with that kind of proposition.

Beyond that, with the provision of this applying only to new gas and rolling it in, so to speak, to the distribution system, you have the price effect as far as the consumer is concerned, very gradual.

MORE

Furthermore, it is worth noting that the wellhead price is less than 20 percent of the delivered price. In other words, a very high proportion of this price is represented in transportation and distribution costs.

On the subject of research and development, I think here the important thing is our posture, that is, here we have an important problem. We are going to address it with an aggressive research and development program, and we must be willing, as it says in the Message, to spend the money that can be effectively used in this area. And as we develop and find effective ways to use the money, then we will look around and we will find the money.

Now, there has been a very rapid buildup in R&D expenditures in the energy field on the part of the Federal Government, and no doubt that will continue. We must, however, not just simply throw a lot of money out there, but have a good idea of what that money is going to be spent for and have a sense that it is going to be spent effectively.

I would say also in connection with the R&D efforts that it is important for us to organize this in such a way that we have a balance between the private sector and the public sector as we address this problem.

A billion dollars or so per year are spent by the private sector in this area, R&D in this field, and it is very important to keep that alive and keep a good interaction between public and private efforts and not have the Federal Government just come in and sort of pre-empt the field.

So, this research effort would apply, among other things, to other areas, the coal gasification and liquification areas, the problem with coal of taking this tremendously abundant source we have -- we have plenty of coal to last us practically forever, if we can learn how to mine it consistent with our environmental concerns and if we can learn how to use it consistent with our environmental concerns. It is there. And the question is how do we exploit that resource effectively, and there are measures proposed here.

Or you take the field of atomic energy. There are many problems, strong research there. One of the problems we have is that if you take the same company to build a plant, and the same specifications for the plant, and you tell that company to build the plant in Japan or Western Europe, they can do it in half the time that they can do it here.

The same company, the same plant. Why? Because we have a very complex set of administrative arrangements and appeals procedures and so forth that just delay everything and will even delay things when a plant is built and ready to go critical and there it sits held up.

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So, we must take measures to allow ourselves to use the abilities that we have in this area, again consistent with the concerns that these procedures represent, but let's clean up the procedures so they can be gone through in a more rapid and decisive manner.

Well, these are a picking and choosing among a great many areas that are mentioned in the Energy Message. And as was suggested, I am surrounded here by Charles DiBona, who is our person heading the staff work on this, in the Executive Office of the President, and William Simon, who is Chairman of the Oil Policy Committee and if you will address your questions to one of them and let me off easy, I will appreciate it.

Q Mr. Secretary, we have a question which I think is appropriate for you. It has to do with taxes. What do you estimate the revenue cost of the investment credit exploration would be, and how do you feel in principle about diminishing the tax incentive for exploration abroad?

SECRETARY SHULTZ: We talked about exploration abroad when we discussed the Trade Bill and you see what we are doing here is, in effect, trying to shift the balance of incentives and say to our companies, "We are changing this and we think it is better to give you an incentive to explore here than it is to explore abroad."

So, we are trying to shift that balance. These amounts are significant, although they are not overwhelming. I think the estimated impact of the investment tax credit application that I mentioned here this morning is on the order of $60 million, I believe, and I don't offhand have the impact of the other side of it.

Q $60 million next year, but in the future how much would it be?

SECRETARY SHULTZ: Well, it is a little hard to tell, but that is our estimate based on 1973 income levels, but it is sort of a full year basis, it isn't on the basis of some part year. But, at any rate, this is all part of a consistent pattern that we started unfolding with the Trade Bill, that we are continuing to unfold to tie all these subjects together and go about this in an integrated manner and we will have more to say in this general area as we bring forth our general tax proposals.

Q Secretary Shultz, recognizing the complexity of these proposals and the affected air quality and everything else, do you have any idea how this would affect the consumer if all of these proposals were adopted, would the energy crisis tend to rise or increase or stabilize?

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SECRETARY SHULTZ: From the standpoint of the consumer, if these proposals are adopted, he and she will have more energy at lower prices than they would if the proposals were not adopted.

Now, I think that we obviously will see, for instance, in the case of natural gas, higher prices. And the question is, what would happen if we didn't do this? We would not exploit the supply of resources that we have. We would continue to use it in an uneconomic way. Our reserves are going down pretty fact and pretty soon we wouldn't have any.

So, I think that the interests of the consumer are very well served by these proposals,even though I think we all must face up to the fact that energy costs are going to rise; in part because those costs will reflect the thrust of the environmental concerns that are in effect imposed on the production and consumption of energy.

Secretary Peterson, I think, expressed this all very well in a clever phase a few months ago. He said, "Popeye has run out of cheap spinach," and that is about what it has come down to.

Q What effect will the President's actions today have on the current gasoline shortage, Mr. Secretary?

SECRETARY SHULTZ: Well, they will help to meet any shortages that have developed or may develop by removing all quantitative restrictions on imports, by setting a structure for the industry to operate on with respect to imports, with respect to our intentions on the Outer Continental Shelf, with respect to the investment tax credit and so on. The industry will be encouraged to import, as it can, and to produce a balanced structure of supply.

So, I think this will be helpful, although we do face some important potential problems there.

Q Mr. Secretary, on the subject of imports, what is the latest projection of imports by the end of this decade, taking into account the proposals here?

SECRETARY SHULTZ: Well, the proposals here will affect that in important ways, and just quantitatively how much will depend, of course, on how rapidly we can move forward on the Outer Continental Shelf, whether we can get the Alaska pipeline promptly, what happens to the supply response as far as natural gas is concerned and our R&D efforts and so on.

There are a lot of question marks here, and I think that the point is that if we do nothing, our need to import will rise very rapidly. It is going to rise anyway and the thing to do is to get cracking on as many workable significant things as we can and reduce this dependence on imports as rapidly as we can.

I don't want to try to fix a precise number, in other words.

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Q You talked about trade off of energy versus price, Mr. Secretary, but there is also a clear implication here of what seems to be another very important trade off, that is energy versus environment, which seems to be implicit in the need for high sulphur oil and expanded offshore drilling and so forth. What, in a nutshell, is the Administration's philosophical position on this trade off in any unresolvable crunch between energy and environment?

SECRETARY SHULTZ: I think that the objective, of course, is to work with all of our ingenuity and research and so forth to see how we can do the things that we must do on the energy side, how we can do those things in a way that meets the environmental conditions that we must do everything we can to meet.

So, to a degree, we try to avoid the trade off by solving the problem. On the other hand, there are certain things, for example, in the area of coal. We have primary standards and we have secondary standards. The primary standards reflect health and safety.

Now, I think it is a fair question, and in the message the President puts it to the States on this, to postpone the impact of the secondary standards in the interest of using the coal that we have.

Now, that does not bother anybody's health and safety, so I think we have to face up to some of these trade offs and take them one by one, and be concerned with the environment, and also be concerned with the energy that we need and the prices that we can afford to pay and regard these things as a balanced proposition.

We certainly have no intention whatever of letting up in the effort to improve the quality of the environment.

Q Mr. Secretary, did you consider making any stronger recommendations than you did to limit the consumption of energy, such as smaller cars, or less horsepower, rather than just these labeling proposals and insulation of homes?

SECRETARY SHULTZ: There is a combination of ongoing things that are beefed up here. There is an Office of Energy Conservation proposed in the Department of the Interior, and I think what we are trying to give is a sense of an ongoing effort to address this problem. And no doubt there will be further things.

The question of the horsepower of cars is one that we have thought about and have been working on and we do not have a proposal on that at this point. I think this is an area, incidentally, where that saying that I think the environmental groups brought forward very effectively, is quite apt, we have met the enemy and it is us. And to a certain extent this conservation effort is a question of everybody trying to do with a little less and it is a voluntary proposition, basically.

For example, I understand that the average home in the U.S. is about five degrees warmer in the wintertime than it is in the summertime nowadays. That is an interesting little juxtaposition of people's preference on temperature. Far be it from me to suggest, and I am not suggesting in any way, that we should try to impose anything on anybody in that regard, but people might think it over, and wonder if they couldn't keep their houses a little bit warmer in the summer and cooler in the winter.

Q Do you have a target date for Atlantic coast lease sale?

SECRETARY SHULTZ: The CEQ lead study, we expect, can be completed within a year and we expect out of that study to have reflected properly on all aspects of that problem including the environmental problem, and then be ready to move forward.

Q Mr. Secretary, you said that we might have to rely on increased imports to handle the gasoline shortage this summer --

SECRETARY SHULTZ: We will have to have increased imports as we go along. We know that.

Q My question is, why are the initial fees so high for imported, refined gasoline?

SECRETARY SHULTZ: Well, they aren't, and I appreciate your question. I believe Secretary Simon is going to brief in detail on the oil import quota right after this, but there is now a tariff on imports, all imports. There are also lots of quota tickets outstanding. Imports with those quota tickets pay that tariff.

Now, what we are doing is eliminating the tariff and instituting the license fee system. The license fee applies to imports that do not take place in connection with a quota ticket. A quota ticket holder gets his import without paying the fee.

Now, there are a very large number of tickets outstanding right now. We believe enough to pretty much handle the imports that we will need this year.

Therefore, in the way this is constructed, as it unfolds over time, we, in effect, are reducing the tariff on any import for the balance of 1973 to zero, or for all practical purposes that way, and then it will build up.

Now we are balancing here long-run and short-run considerations and we have tried to work that into the system and I think Secretary Simon has done a very ingenuous job of it, and his colleagues.

So, as this unfolds, we will give encouragement to domestic exploration and production by the differential in the license fees, we will give encouragement to refinery production in the U.S., in building, which is badly needed, by the two tier fee system; that is, one on crude and the other on product. So that is the way that would unfold.

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Q What are the prospects now for a major arrangement to import liquefied natural gas from the Soviet Union? It is not mentioned anyplace.

SECRETARY SHULTZ: That is a long-term proposition that is being studied by officials of the Soviet Union and several of our companies, and it is, I think, promising, but there is a tremendous amount of work yet to be done to see whether it is really feasible.

What it comes down to is, we know the gas is there, so the question is how much is it going to cost to get it and get it out and get it here in comparison with other sources of fuel, including natural gas here; that is, what will happen to the supply of natural gas from domestic sources if the price increases significantly? We know that will bring in more supply.

We know there is supply there, but it cannot be brought out unless the costs that it takes to get that more costly gas are reflected in the price. Now, how elastic the supply is you can find experts debating about very hotly, and it is probably well for us to make a conservative assumption and not expect the moon to arrive on the platter, but at any rate, these are some of the uncertainties involved. We are pursuing that and it is promising, but a lot of questions have to be answered.

Q Can you give us any feel for the initial reaction of the Congressional leadership that was briefed today on the legislative proposals?

SECRETARY SHULTZ: Many of the proposals are similar to proposals now being processed, and in that sense, of course, they are part of an ongoing process. People are taking positions on them. I think there is by this time almost a universal acknowledgement that we have a problem of serious proportions. We don't have a crisis in the sense that we have a terrific supply of energy here, but we could work ourselves into one very easily unless we take some positive policy actions along the lines of the President's suggestions.

Of course, the individuals in the leadership who were here will speak for themselves. I thought, on the whole, it was a constructive meeting. A number of suggestions were made, and the President's mood, I would note, is that when he hears a suggestion of something that somehow we didn't seem to have included as prominently as we might, he says to me, or he says to Mr. DiBona or Mr. Simon, "Let's get after that. Talk with the Senator, talk with the Congressman and let's work on that and see what can be done."

In other words, there is a positive, aggressive thrust to solve a problem here, and it seemed to me that was the general tenor of everybody's stance.

Q Mr. Secretary, will the changed import program be sufficient to head off serious shortages in oil and gas over the next year to two years, this very crucial period?

SECRETARY SHULTZ: It will be very helpful, and I do not think anyone knows precisely what will happen. It is certainly going to be helpful to us, and we hope will resolve the problems. Prices will be higher, but we still have problems, and I don't want to say that there are none.

You always are operating with a certain amount of uncertainty on these things. I remember when we opened up on beef, everybody said, "Well, that was okay, but nothing would happen," and the fact is, we have 20 percent more imports so far this year than we had last year. So something happened.

I think these incentives and so on, if you will reflect on them, do work, and we hope that they do in this case.

Q Mr. Secretary, in regard to that, since you brought up meat, it is very appropriate. I was wondering --

SECRETARY SHULTZ: Oh, dear; I am sorry I brought it up. (Laughter)

That is a source of energy, too, isn't it; a different kind?

Q Right, and in view of the Administration's efforts to increase plantings by farmers, and the problems of shortages of diesel and gasoline in farm States, how is this program today going to help meet the short-run, very immediate needs of those areas?

SECRETARY SHULTZ: Well, it helps, and I think the thrust of bringing in imports, the way in which the new oil import control system is arranged in order to give the holders of quota tickets something of value that they can exchange for crude and bring that in to the independent refiners, which have served some of those markets -- not exclusively by a long shot, but they have played an important part -- all of this will help, and provides an additional reason for getting going on this.

The effective date, incidentally, of the change in the oil import program is May 1st.

Q Mr. Secretary, would you outline the pieces that probably will go into the proposed legislation for the Department of Energy and Natural Resources? There is no outline in the material about what would go where.

MR. ZIEGLER: Without trying to describe in detail something that hasn't been fully settled, I cannot. I would say that it will be broadly similar to the proposal the President made two years ago, except that there will be a greater emphasis on the energy problem, both in sort of explicit content and in spirit than one saw there.

Q Mr. Secretary, what is your position on use of Federal authority to allocate supplies of gasoline or heating oil if there are shortages? There is nothing about that in this message, is there?

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SECRETARY SHULTZ: I believe that under the emergency preparedness legislation -- do you want to respond to what authorities you have on this?

MR. DARRELL TRENT (Acting Director, Office of Emergency Preparedness): The authorities are that it is necessary, first of all, to have a disruption in the needs for the defense sector of the economy to such an extent that it is necessary to allocate from the civilian side of the economy to the defense side. Only after this is satisfied in the Defense Reduction Act is it possible to move further with allocations in rationing on the civil side of the economy.

Q Is that adequate authority to deal with the impending situation? That is the question.

SECRETARY SHULTZ: We think that we are all right. We have a rather perverse situation all the time. There is an effort to thrust authority upon the President in this area, and it may be that that will succeed. We hope that the measures taken will obviate the need for that, and we certainly will lean on people a little bit to get reasonable allocations, and we have done some of that, and there seems to be a response.

Q Mr. Secretary, how would you say this program differs from what the oil and the gas and the coal companies have been asking for?

SECRETARY SHULTZ: I think one of the interesting things is that the various industry groups for different things. The coal people will say, "You should place more emphasis on coal," and so on and so on. I believe what is happening, though, is a greater and greater sense, all around -- in government, in the Executive, in the Congress, among the industry groups, consumer groups, environmental groups -- a recognition that there is a general problem, and that we have to work at it, both in the sense of taking fuel by fuel and working at that, but also in the sense of examining all of the cross-currents that exist among these different ones.

But as to listing all the proposals that people from the various industry groups have made, and then contrasting, I wouldn't be able to begin that. It would be such an exhausting thing.

THE PRESS: Thank you, gentlemen.

END (AT 12:05 P.M. EST)

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OFFICE OF THE WHITE HOUSE PRESS SECRETARY

THE WHITE HOUSE

PRESS CONFERENCE
OF
DEPUTY SECRETARY OF THE TREASURY WILLIAM E. SIMON
DARRELL TRENT, ACTING DIRECTOR, OFFICE OF EMERGENCY PREPAREDNESS
CHARLES DiBONA, SPECIAL CONSULTANT TO THE PRESIDENT
WILLIAM JOHNSON, ENERGY ADVISER TO DEPUTY SECRETARY SIMON
DUKE LIGON, DIRECTOR, OFFICE OF OIL AND GAS,
DEPARTMENT OF THE INTERIOR

EXECUTIVE BRIEFING ROOM

12:20 P.M. EST

MR. NIPP: Good afternoon. The briefing today will be conducted by Mr. William Simon, Deputy Secretary of the Treasury and Chairman of the President's Oil Policy Committee.

Secretary Simon will be joined in the Q&A session by representatives whom he has assembled here. On my left, Mr. Darrell Trent, Acting Director of the Office of Emergency Preparedness; on my right, Charles DiBona, Special Consultant to the President; William Johnson, Energy Adviser to Secretary Simon; and Duke Ligon, Director of the Office of Oil and Gas.

Secretary Simon's discussion will center on the oil import program. We have prepared for you a statement by Secretary Simon, a summary of the modified oil import program, and a set of charts. We also have with us the copies of the President's Energy Message. If you do not get one right after this meeting, we will have some that you can take with you. Following Secretary Simon's statement, he will answer questions from the press.

MR. SIMON: First of all, I would like to apologize for the delay. There were several meetings that the President had this morning that I know made it darn tough on your deadlines.

A little bit in the way of background, because I think it is always helpful to look back before we begin to explain our actions. I will just talk very briefly. I have a seat next to Darrell Trent. I thought it would be useful if all my experts could field your questions and answer them to your satisfaction.

The original oil import policy was a voluntary one. It started in the mid-1950s. In 1959, it was changed to a mandatory policy set originally at 9 percent. It was subsequently changed to 12.

The original purpose of the oil import policy was to protect the domestic industry. We had at that point in 1959 an over-supply, if you will, and also foreign crude was much cheaper than our domestic crude. We have now seen a dramatic turnaround, where foreign prices are either equal or slightly above U.S.; and also, our demand is presently exceeding our supply by about 5 percent, and perhaps growing at that rate.

MORE (OVER)

As it is currently structured, the oil import program has not prevented the near-term crude product shortage, nor has it provided adequate incentives for domestic exploration and production and new refinery construction and expansion. We have had one new refinery, I believe, since 1965, and at present there are no new refineries underway.

This is in a period where all the refineries are operating at 100 percent of their effective capabilities. This was established at a time which I just finished explaining. This program has done much to aggravate, if you will, the tight supply conditions. It has done that because, obviously, the inability to assess unexpected increases in demand led to a situation where there were insufficient import tickets. This creates an obvious shortage that could have been averted.

Probably the greatest shortcoming in this present program is its uncertainty. As you know, industry cannot plan in an uncertain climate. Our import allocations were subject to annual realignment. We were making the guesstimate. In recent years, the program has been altered frequently, and now it is a patchwork of exceptions.

There was also just a general dissatisfaction with the program on the part of Government and industry, and everybody believed that something had to be done. Therefore, it was decided that this program had to be modified to meet the current objectives. It had to be restructured to assure flexibility to import oil to satisfy the short-term, and we are dealing with short-term and long-term problems, and it put a program into place that the industry would know the rules that they would be living with for permanence, whatever that may be, while at the same time providing the necessary incentives, because our mission is really to have a vigorous domestic petroleum industry, because it is only a vigorous domestic petroleum industry that can give us the capability of self-sufficiency in energy that the President has outlined in his Energy Message.

There are built into this program a number of exceptions to license fees during the next seven years. This is done to provide a transition during which both producers and consumers will be able to adjust to this new system. It would be obviously grossly unfair if we changed the rules and everything started on Day 1 for the people who had invested many millions of dollars in this thing, so we are giving them a gradual phase-out to allow them to adjust to the new economics of the petroleum industry.

In the long run, however, seven years, each of these exemptions will be phased out of existence in order to create a simpler and more uniform system.

Now, in approaching the short-term and long-term, it is obviously inconsistent, and we had to take into consideration the various components of the petroleum industry. As you all know, I am relatively new to this industry. When I went about studying this problem with my very capable group of gentlemen here, and others, we were called upon by all the components of this industry, and I quickly learned that the major integrated company, the jobber, the marketer, the inland refiner, the East Coast refiner, the deepwater terminal operator, the different pads, I to V, all had particular problems in getting the product into the distribution system.

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So we had to sit down and reconcile these problems in our deliberations. I believe that this program that we have put before you and before the industry will achieve the objectives: the short-run objective of bringing in as much crude and product as we possibly can to meet the potential shortages not only of gasoline this summer, the No. 2 fuel oil next winter, but also to put into place this permanent system so that the industry will be able to plan.

Now, the highlights of the system obviously are the removal of the volumetric quotas, and effective May 1, 1973, anyone can now import. Also effective, the existing tariffs have been removed and in place a license fee has been put in which I am sure you have all looked at and seen how it gets phased into November 1, 1975.

This license fee will create a value for the tickets which will enable the independent components in particular to swap with the major companies for their much needed supply. The independent component of the industry eaally is the one who we spent the greatest amount of time agonizing over.

As you know, the Oil Import Appeals Board in January and February of this year stepped up their activity. The Oil Import Appeals Board in the past received a small kitty of the overall imports, and they were allowed to give these tickets out for hardship. Now they would take these hardship pleas, and about September of the year they would take this small kitty and allocate against them. That, too, was an outmoded way to operate.

So the Oil Import Appeals Board decided to meet this current situation with action, and they did. They went ahead and passed out their whole year's supply in five weeks. The President then signed a proclamation which will allow them unlimited authority in the future for hardship cases. This will be aimed at supplying license-free tickets to really the independent component, coupled with the ticket value and the swaps, because your major integrated companies will not be given tickets from the Oil Import Appeals Board on hardship unless they have demonstrated that they have performed their swap function in the market in alleviating the independents.

We also have what I hope and believe is an incentive for much needed refinery construction and expansion. As I said, we have had one new refinery since 1965. Current estimates are that we could use six to seven new refineries. Seventy-five percent of the throughput of new refineries will be given license-free tickets for five years in an effort to give the incentive for this much needed construction, as I said.

I am not going to go through the entire program with you because I am sure you have all read it. I want to give my colleagues a chance to respond to your many questions. I also know that you have deadlines and I want to make at least tomorrow morning's newspapers, if not today's.

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I know there was one question asked as to why the present license fee; what in the world does that do today with foreign prices above domestic prices? When comparisons show that foreign prices are already higher than our domestic prices, these comparisons are based on what we call spot purchases, and also on short-term tanker rates in a very tight tanker market.

Other comparisons based on long-term contracts, both on the purchase and the tanker rates, show a somewhat lower price. Moreover, not all foreign prices, particularly those of higher sulphur crude oils, generally produced in foreign countries, are higher than their equivalent in the United States.

Even a more important consideration, however, is that the new fees are not only being imposed to equate domestic and foreign prices, but, rather, another objective of these fees is to provide this economic motivation for the development of new capacity to refine oil.

With that, I believe that I will stop and respond to your questions. I think we can all hear.

Q The independents have complained that they just can't get the majors -- the inland and the mid-continent independents -- say they can't get the majors to swap with them because the majors need all the oil they are getting from domestic production. They find that foreign supplies are not available.

Given those circumstances, how is the ticket value of 10-1/2 cents a barrel going to bring any additional crude oil to the inland refineries?

MR. SIMON: We believe that having a ticket value will give the incentive to swap. We have seen recent evidence where, indeed, the major companies in the past two weeks have been swapping with the inland refineries.

Q Are you saying it will give the refinery an ability to pay a higher price for the oil?

MR. JOHNSON: There is a problem, of course, with the shortage of sweet crude oil. To the extent that this is what is making it impossible for inland independent refiners to swap, this problem may persist. But added to this has been another problem, and that has been the fact that the foreign price of crude has gone up, and in some cases has gone higher than the domestic price. This has all but winnowed away the value of the ticket.

Under this program, the independent refiners will be able to utilize their existing tickets free of license fees. The independent refiners also will have grandfathered their existing 1973 allocations, which tend to be more favorable toward them because it is on a sliding scale. Finally, they will have access to the Oil Import Appeals Board, all of which will provide the independent refiners with tickets that do not have a license fee attached to them.

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Now, if the majors have to import their oil and have to pay a license fee of 10-1/2 cents, working up to 21 cents, that means that the majors will be able to save 10-12 cents working up to 21 cents if they were to trade or make some arrangement with the independent refiners. In this way, we hope we put a floor of 10-1/2 cents, working up to 21 cents, under the tickets and hopefully will help the independents to overcome their present problems.

MR. SIMON: I am not suggesting this is an absolute cure-all. The independent segment of the oil industry came into being when there was an adequate supply, indeed over-supply. They received their product very simply. I am not saying that giving them tickets creates a barrel of oil.

Q If the refiners are at 100 percent capacity, of what value and what will happen to the new crude oil that comes in here for refining.

MR. SIMON: There are refineries inland that are not operating at 100 percent.

Q So your 100 percent was a very vague number.

MR. SIMON: No, it wasn't vague. A great majority of them are functioning at 100 percent. We have capacity in this country for greater crude to come in and be refined at this point, but it is limited. I would say that most of our imports will be in the product area in the near future.

Q Mr. Simon, what happens to the consumer in the marketplace? The economy is such that with increased supplies, he will get a cut in price? Will it remain just about the same, or is it still possible that prices may go up?

MR. SIMON: You can look at this two ways. Our alternative: Let us say that we do nothing. I know there are lots of people talking about dollar gasoline, which I really have to come down pretty hard on. Nobody is predicting that a barrel of crude oil will double in price, and even if it did, gasoline would be 48 cents rather than 40 cents a gallon.

It is obvious that we are going to have to pay more for our imports. There is no doubt about that. This is what I might call a seller's market. They feel in the Middle East that they have been selling their oil too cheaply for many years and they are demonstrating this now by recent increases. That is why foreign oil has now crept up.

I would say that it would have to rise in the near term. But looking at the long term, when all the programs that the Secretary and the President announced in the Energy Message, when we do build this self-sufficiency for our energy needs in the nuclear area, coal gassification, shale, natural gas, then we will begin to see supply in this country, which obviously will have a very salient effect on the price.

Q Mr. Simon, could you clarify the Administration's position on imports of oil from Canada? The proclamation sets a figure of 960,000 barrels coming in without fee based on the quota. The Treasury summary on page 7 says it will actually be set at the level coming in the first quarter of '73 which, of course, is a lot higher. Then the proclamation says that, indeed, oil can come in at a higher rate, at a higher level, without fee "as long as such increase is consonant with the purposes of this proclamation."

I am wondering if you can deal with what seems to be a contradiction between the 960,000 and the higher figure, and also whether the quote from the proclamation indicates a throwback to a statement by other Administration officials in previous times that oil could come down at a higher rate -- I am sorry -- larger volume if some sort of national security, continental security arrangements could be made with Canada.

MR. JOHNSON: Under the Canadian program, our intent was the same as it was, and any other special program that has cropped up in the mandatory oil import program over the years. That was to provide a period of time during which the consumers of finished products brought in from Canada, and also consumers of crude oil brought in from Canada, would have an opportunity to adjust. That adjustment period is that seven-year period that we have outlined in the proclamation.

The intent was to grandfather existing imports from Canada either at 1973 allocations or the average annual level that is implied by the first three months of imports during 1973. That presumably is the figure that is in the proclamation. The intent is to grandfather existing levels of imports and to phase down that level of imports over a period of time.

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Q The second part of my question. What is meant by that phrase in the Proclamation, "So long as such increase is consonant with the purposes of this Proclamation."

MR. JOHNSON: I would have to hear it in fuller context.

Q This is on the bottom of page three of the Proclamation. "For Districts I-IV, 960,000 average barrels per day per calendar year; Provided, That, the Secretary may, within the limits established by subparagraph (1) of paragraph (a) of this section, increase the quantity of crude oil, unfinished oils, and finished products which may be imported from Canada so long as such increase is consonant with the purposes of this Proclamation."

MR. JOHNSON: I am not a lawyer and lawyer's language sometimes escapes me, but I believe that phrase is referring to the general principle that is provided in the handout, that for the various countries from which we will be receiving imports, Canada, Mexico and other Western Hemisphere countries, that the special arrangements -- this is a deterrent for negotiations with these countries or with other countries for further arrangements. We are just not closing the door to some license exemption privileges in the future if the State Department deems it necessary for national security.

MR. SIMON: There is one important thing. You all know Charles DiBona from the last interview. Charley has a meeting he must go to. I would like him to stand up here and respond to any particular questions in his overall area right now.

Q Mr. Secretary, you made a remark a little bit earlier saying that giving licenses to major oil companies that unless they do give help in the form of supply to independents that they won't get tickets. Could you explain a little bit more about the mechanics of how you go about that?

MR. SIMON: That is not what I said. The major oil companies, just as everyone else who is presently importing, are frozen at the 1973 level of their import tickets under the old quota system that they may bring in license free.

Now they use up these licenses to import and they would formerly have dealt with the Oil Import Appeals Board. In order to help this much needed independent component of the industry, these people sitting there with tickets and unable to get supply, the major companies are going to have to demonstrate that they have cleared the market, if you will, of tickets from the independent sector. That is what I meant by that.

Q You mean before the majors can get additional oil?

MR. SIMON: Before the Oil Import Appeals Board will give them any tickets.

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Q "Them" in this case referring to major refineries?

MR. SIMON: Yes.

Q Mr. DiBona, could you put any kind of rough estimate on how long before this proposed increase in alternate supply and technology begins to take some pressure off the import requirement?

MR. DiBONA: We don't see much increase in domestic oil or gas production as a consequence of these proposals in much less than two or three years. That is, we will see a little bit in the first year and a little bit more in the second, but it would really be about three years before you see substantial increases. In regard to the Outer Continental Shelf, there will have to be lease sales and then subsequent drilling. We will see very substantial increases, if the estimate is correct, by 1978, as a consequence of our drilling on the Outer Continental Shelf, both with regard to gas and oil.

Q Mr. DiBona, why didn't the President ask Congress for legislative authority to require the labeling of energy consuming products?

MR. DiBONA: Well, the President, in the Energy Message, indicates a voluntary program of labeling. We prefer that course to a mandatory program of labeling, simply because we believe we could, first, bring it about quicker.

Secondly, because we have every indication of interest by manufacturers cooperating with the program because of peoples' increased interest in energy utilization.

Thirdly, because we have established a good part of the necessary bureaucracy already and we would not have to add to the bureaucracy to do this. We are going to be using the National Bureau of Standards. They are going to set test conditions. When individual companies test their appliances or automobiles under those test conditions, they will be getting the Bureau of Standards "Good Housekeeping Seal of Approval" on those indicated.

Q To what extent will there be an expansion of research or a change in priorities for energy problems?

MR. DiBONA: We are expanding research in the energy area. Since the President's first Energy Message in 1971, we have increased research on energy matters by 50 percent. The present proposal on R&D is a 20 percent increase over fiscal year 1973, and we are committed to continuing increases in research in energy R&D.

One of the things that I intend to do very soon is set up a panel of scientists, both from within the government and from without, to advise, make suggestions, indicate where we are to go, and in a very aggressive program of research and development. We intend to spend every cent that can be usefully spent in this area. We don't intend more than that or less than that. It will be a program which will be building, as has been building in the past few years.

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Q A question on the Santa Barbara Channel. Supposing in the message, to do something which the last two Congresses were not inclined to do, namely to cancel the leases and compensate the lease holders for them, in the message it talks about authorizing the Secretary of the Interior to buy those back. What leads you to believe now you can achieve what you couldn't before, compensation by Congress? And is there a different means of compensation proposed indicated by that language "authorized by the Secretary to buy them back."

MR. DiBONA: I am not familiar with the details of that proposal, so I am really having some difficulty answering the question. We will check with Interior and get the answer.

Is Steve Wakefield here?

MR. SIMON: No, Steve waited as long as he could and he had a speech to make.

Q What are the problems with petrochemical plants? It says license fee charges will be considered by the Oil Policy Committee at a later date. It seems there is some question here. You have not made up your mind what to do about petrochemical plants. Will you elaborate on that?

MR. JOHNSON: The problem there is, as you know, we have Sections 9A and 9B under the old system. The question is how do you translate commitments made by the U.S. Government into comparable commitments under the new system.

It is not easy, because you have on the one hand, a quota program, on the other hand, you have a license fee method of allocating imports.

Our effort here was to try to be as equitable and just as possible.

Well, new petrochemical plants are handled very easily. We are treating them just as refineries. New petrochemical plants coming on stream, using heavy feed-stocks will be able to enjoy the same license fee exemptions as a new refinery. But there is a problem under 9B. I believe it is five existing petrochemical plants using heavy feed-stocks. That problem was not resolved by the time the Proclamation was ready. We felt it needed further study and it should be reserved for OPC in the future.

Q The allowance of the three-quarter terminal operators is listed as 50,000 barrels a day. Now they understood in a very authoritative way, Congressional sources and other sources, understood they would get 100,000 barrels a day. It appears that they were cut back at the 11th hour. I wonder if you could explain to us why you changed your thinking?

MR. SIMON: You know, I have read so many things and heard so many things over the last month about what we were doing, the different numbers on the tariffs or license fees and the different exemptions and allocations that we were going to make to different people, I don't know what authoritatively was. I must admit that we discussed, I think, every single option manageable during the course of making these difficult decisions.

There was a time when that group was asking for substantially in excess of the 100,000 figure that you mentioned. We had discussed all numbers. When we came right down to the final decision, what we believe was the thrust, anything greater to one component of this industry, any greater amount than they were getting, that if we were to grandfather, we would be opening up the way to make exceptions which is what we are trying to remove, the uncertainty of the old program where you make one exemption that is just one of a chain of exemptions because everyone else would come along and, before you know it, you completely negate it.

Now, we believed, as I explained a while ago, and also mentioned two things; one, if we had given a greater than heretofore exemption for any component, that we would have severe legal problems. One, we did not want to make any greater exceptions; two, we have the all important vehicle of the Oil Import Appeals Board, which I explained to you will function and concentrate on the independent segment of the industry.

Q Mr. DiBona, a couple of references have been made to national self-sufficiency. I don't know if that language is in the Message or not, but as a general statement, would you say that the main purpose or a main purpose of this Message is to promote maximum production in the United States of energy resources, et cetera?

MR. DiBONA: What we intend to do is increase production in the United States.

Q Does that language appear in national self-sufficiency?

MR. DiBONA: I don't believe that that language is in the Message.

Q I heard that from the platform this morning, I think.

MR. SIMON: I said the capability of self-sufficiency. That was just my quote.

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MR. DiBONA: It is very unlikely, incidentally, that the United States will, in the immediately foreseeable future, not have substantial imports of oil, if that is the substance of your question. That is not likely to occur. We have been increasing imports of oil. Last year it was 4.7 million barrels per day. This year it is estimated to be six million barrels per day. It will continue to increase for a few years. What we are interested in doing is trying to pull down the rate of that increase and perhaps at some point even stop it.

Q Are you publishing your projections on those figures for 1980?

MR. DiBONA: We have a set of projections from the Department of the Interior that are built on the assumption of the old policies. Now with regard to what the effect of the present policy is going to be, I think Secretary Shultz explained that very well; that is, there are lots of uncertainties here.

We are sure that we will get more gas as a consequence of competitive pricing of natural gas, but we are not sure how much. We have, as he indicated, some problems with the combustion of coal. We have some R&D projects coming along for liquifying coal and gassifying coal. We expect that we will have additional incentives for exploration of oil. It will depend on how quickly we are able to use the resources in Alaska and the resources on the Outer Continental Shelf.

Each of these things is highly uncertain at the present time. How well they work out will affect how much we end up importing and how well all of them work out.

Q Mr. DiBona, there appears to be a possible loophole here in that the President's message says, "Effective today, I am also suspending direct control over the quantity of crude oil and refined products which can be imported." Your new fee schedule does not begin until May 1. Is there a gap there?

MR. DiBONA: No, sir; both statements are correct. What the message indicates is that the President has signed a proclamation which is effective today which changes a substantial part of the oil import program -- Section 3 or something -- and there are many dates when things become effective in that proclamation.

The removal of the tariff and imposition of the first fees occur on May 1st and then there is an increase in schedule over time, different dates. So both of those statements are correct.

Q Nothing actually happens today so far as substantive changes in the program? All that happens today is that he signed it?

MR. DiBONA: Today what happens is that those sections of the proclamation on the old program are revised today according to that language. That language itself contains lots of dates when things become effective.

Q Will this in any way alleviate the gasoline shortages this summer? Does it come early enough that there is any way that it can be alleviated?

MR. DiBONA: We are not exactly sure how things are going to work out this summer. We believe that the program, particularly the changes in the import program, could have some effect on that. It certainly will improve the situation, because it will be easier to import.

Again, we are not sure how much we are going to get in. It is clear that we need increased imports in order to meet the increasing gasoline demands for this summer.

Q Mr. DiBona, how large a staff will you have in the National Energy Office?

MR. DiBONA: I will have a staff of six professionals and, of course, support staff.

Q Mr. DiBona, could I follow up that last question on gasoline, in which you said that you thought it would improve the situation because it would be easier to import. Mr. Simon also suggested that finished product would be the primary additional import. That sounds as if you are hoping for additional gasoline imports. Is that correct?

MR. DiBONA: That is precisely correct.

Q Why does the fee schedule call for motor gasoline to have a 52 cents per barrel fee on it compared to ten and one-half cents for other finished products?

MR. DiBONA: That is no greater fee than the present tariff on it.

Q That would not tend to encourage gasoline imports compared to crude or other products, would it?

MR. DiBONA: Except for the fact that presently even if you have a coupon to import gasoline, you must pay that tariff. Today if you have a coupon to import gasoline -- or after May 1st, you will not have to pay the tariff, but you can import as much gasoline as you want over and above those and then pay the tariff.

Essentially what is happening is that you will be able to import substantial quantities of gasoline this year without paying the tariff or fee.

Q What I don't understand is the differential fee on gasoline above the present quota system. What is the logic behind that?

MR. DiBONA: The logic behind having a higher level of license fee for finished products than for crude oil?

Q No, for gasoline vis-a-vis finished products.

MR. DiBONA: That largely reflects moving from the present situation to one in which all products will have the same license fee and there will be a differential between the license fee for products and a license fee for crude of about 42 cents, and that is our estimate of the differential that is necessary to encourage refinery construction in the United States.

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Q Why is there such a higher differential between gasoline and finished products?

MR. DiBONA: Because we are starting from the present arrangement and moving toward the new arrangement. The important thing to remember about it is that people will not very likely have to pay any license fee or tariff this year for imports of petroleum. The reason for that is that we are shifting from a system of tariffs in which even if you had a license to import, you had to pay the tariff, to a system in which the import ticket is used as a means to import without paying a tariff or without paying any license fee.

Q On this very point, what is the exempt volume of gasoline imports?

MR. DiBONA: That will depend very largely on the number of import licenses issued by the Oil Import Appeals Board. The Oil Import Appeals Board has recently been authorized by the President to issue tickets without quantitative limits, that is, formerly they were given a quota of tickets which they had to allocate to people who requested them, whereas now they can look simply at the question of whether there is a hardship and not at that total number of tickets they have remaining.

We anticipate substantial increases in the number of such licenses issued by the Oil Import Appeals Board, so that we don't anticipate that will cause any real problem.

Q Today's action does not reimpose the ceiling?

MR. DiBONA: It does not reimpose the ceiling on the Oil Import Appeals Board.

Q When does the Board go out of existence?

MR. DiBONA: May 1, 1980.

Q Mr. Dibona, I believe you twice referred to what might be a hope, increased production domestically of oil and gas if Congress goes along on the decontrol measures. That is understandable with respect to gas. I think the independent producer segment which some will see as having been largely neglected in this proposal would ask the question, how can you anticipate increased production when the only provision that might tend in that direction is the fee and the fee is phased over such a long period of time that it could be ineffective during a period of increased need for domestic production.

MORE

MR. DiBONA: There are two reasons why we anticipate increased production of oil, or really three. One is that -- well, there is some rationality in drilling for gas. You do get oil often when you get gas.

Secondly, the fee schedule, while it is not totally imposed for several years, will continue to accelerate in effect each year. In fact, every six months, it will increase. So, it will have some impact.

The third reason why we expect increased quantities of oil is through making available probably the most prolific lands and those are the ones on the Continental Shelf. So there is a likelihood of substantial quantities of oil that will be available for development.

Those are the reasons why we think that will occur.

Q I think the incentive that the independent producer would look to has something to do with wellhead price. There is reference in Secretary Simon's statement to the effect that the CLC has given some kind of assurances of consideration for a price, if necessary, in relation to supply. Can you amplify on that point?

MR. DiBONA: Are you talking about the wellhead price of gas for independent producers or are you talking about the Cost of Living Council's decision on oil prices?

Q The wellhead price, because that is the only place where you get the incentive to do the drilling.

MR. DiBONA: We could anticipate that the effect of the Natural Gas Supply Act will have the effect of raising the price of gas at the wellhead.

Q What about crude?

MR. DiBONA: Obviously we believe that it will have a substantial effect. As Secretary Shultz points out, there is a lot of uncertainty about this and you can get some pretty stimulating arguments between economists and people who are familiar with geological structures.

With regard to the oil, I think I have already answered it in the sense that we would anticipate the price will go up as the new program takes increasing effect.

MR. JOHNSON: Let me, if I may, go back to some earlier questions which I think some elaboration will be helpful on.

First of all, part of our thinking just as to what products will be imported in the near future was predicated on the realization that there is not that much production of gasoline that is available in the world today. And also that the quality of gasoline produced elsewhere does not match the types of gasoline that we are used to consuming in this country.

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For this reason, we would anticipate that imports are going to help out primarily in the No. 2 fuel oil area and that this would help U.S. refineries, enable U.S. refineries to maximize for a longer period of time their output of gasoline. That is one of the reasons why we are not terribly disturbed about this substantial differential in the short-run, at least between the gasoline and No. 2 fuel oil.

The other point I would like to clarify is on the Oil Imports Appeals Board. Our expectation is that in the short run, the next two or three years, when we are faced with shortages, that the OIAB will serve as a vehicle that will allow the independents to obtain tickets, free of exemption, and also enable imports in the country in fairly abundant quantities.

Our expectations are that over time not only will the OIAB go out of business, but the ability of the OIAB to handle handout license fees will be diminished.

Q You mentioned federal lands a minute ago. Do you anticipate circumstances arriving when you will have the amended Environmental Policy Act, if there is a good deal of opposition on the development of federal land for oil and gas?

MR. DiBONA: I don't see any reason to consider that at the moment. In answer to an earlier question about the buying back of those 35 leases, I am informed that the legislation is essentially the same as that previously submitted and in answer to that first two-part question, hope springs eternal.

Q Was any consideration given to a system whereby there would be free importation of oil from abroad with the requirement that a portion of the oil be stored underground?

MR. DiBONA: Of course, we actually have and are looking at the possibility of storage. So that is being actively considered at the present time. That is using storage. Exactly how we go about paying for that or compensating for that -- there are a lot of ways you can store oil. One of them is in steel drums. You can also use salt domes in which you flush salt water down and remove the salt and the oil is put back into that dome. It is a very cheap way of storing large quantities of oil.

Q If you were to do it this way, would you not provide lower energy costs for the U.S. while building back our reserves underground?

MR. DiBONA: I don't see that economically it would make a great deal of difference. It seems to me that you would have identically the same effect.

In any case, we are looking actively at that because we are interested in exploring ways of increasing U.S. storage.

Q Is there any provision in the message for the shortage of electricity that we are likely to run into again this summer? Is there any part of the message that applies to that?

MR. DiBONA: Yes. In fact, it is a very serious problem that we have in the U.S. in regard to siting of facilities. One of the pieces of legislation that is mentioned is the electrical, the facilities siting legislation, that will hopefully permit full review of all of the environmental and other effects, localized effects, but also reduce the licensing times for putting those plants down.

The Japanese can build a nuclear power plant in four years. It takes us eight. We are using the same technology. That is part of the problem of the brown-out.

Q What about in the short-range?

MR. DiBONA: It takes a few years to build power plants. The things that have been used as a consequence of not being able to get large steam power plants have been gas turbine powered plants, which, of course, add very much to our oil import problem.

Q There is a considerable volume of gas that is unavailable to the industry today because it is uneconomic to do the necessary compression and cleaning to get it into the lines under the current price structure. Now that is the gas that really needs this higher price through this new unregulated rate you are talking about. Yet, under the President's proposal, that gas would not be eligible for this higher rate.

MR. DiBONA: If it is gas newly dedicated to the interstate system or if it is gas coming from areas where contracts have expired, which would cover some part of that gas, it would go. If it does not fall under either of those two arrangements --

Q I am talking about neither. If you are not familiar with it, the people would be quite happy to explain it to you in a hurry. This is a problem we are up against right now.

MR. DiBONA: With regard to all of these energy sources, natural energy sources, there are points at which the price limits production. That is when it is no longer attractive to exploit a particular well or a mine. As it turns out, extraction levels are at about 31 percent and that is what this gentleman is referring to. Obviously if the price goes up for any particular fuel, then the degree to which that mine is depleted also goes up.

Thank you.

END (AT 1:15 P.M. EST)

Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE WO4-2041

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FOR IMMEDIATE RELEASE April 24, 1973

JOHNNIE M. WALTERS PRESENTED ALEXANDER HAMILTON AWARD

Secretary of the Treasury George P. Shultz today presented the Alexander Hamilton Award to Johnnie M. Walters, Commissioner of the Internal Revenue Service,at a brief ceremony in the Main Treasury building.

Presented for "outstanding and unusual leadership in the work of the Treasury," the Alexander Hamilton Award, which includes a gold medal, is conferred only on recipients whom the Secretary personally designates. It is the Treasury's highest award.

Mr. Walters' citation reads:

"After distinguished service as Assistant Attorney General, Johnnie M. Walters assumed office as Commissioner of Internal Revenue in August 1971 at a time when the Service had gone for several months without permanent leadership. Mr. Walters promptly invigorated the Service with his sense of urgency and demonstrated an early sympathy to the needs and problems of the Nation's taxpayers. He directed a new program of taxpayer assistance

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and revived the practice of preparing returns for taxpayers unable to help themselves. At the same time he launched a vigorous drive against unscrupulous and incompetent commercial returns preparers who had been preying on the public and sapping the strength of our self-assessment tax system. A capstone of Mr. Walters' tenure was his decision to reintroduce the short form 1040A, thereby simplifying the preparation of tax returns for a potential 30 million taxpayers.

"For his drive in speeding up and revitalizing the work of the Internal Revenue Service and his special concern for the rights of taxpayers, Commissioner Walters is hereby awarded the Alexander Hamilton Award."

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

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FOR IMMEDIATE RELEASE April 24, 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 May 3, 1973, in the amount of $4,303,150,000 as follows:

91-day bills (to maturity date) to be issued May 3, 1973, in the amount of $2,400,000,000, or thereabouts, representing an additional amount of bills dated February 1, 1973, and to mature August 2, 1973 (CUSIP No. 912793 RN8), originally issued in the amount of $1,800,885,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,800,000,000, or thereabouts, to be dated May 3, 1973, and to mature November 1, 1973 (CUSIP No. 912793 SB3).

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 Daylight Saving time, Monday, April 30, 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 May 3, 1973, in cash or other immediately available funds or in a like face amount of Treasury bills maturing May 3, 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 RELEASE UPON DELIVERY
WEDNESDAY, APRIL 25, 1973, 9:30 A.M. CST

EXCERPTS FROM REMARKS
BY THE HONORABLE EDGAR R. FIEDLER
ASSISTANT SECRETARY OF THE TREASURY FOR ECONOMIC POLICY
BEFORE THE TRI-STATE CONFERENCE
CONDUCTED BY THE COST OF LIVING COUNCIL
ST. LOUIS, MISSOURI
APRIL 25, 1973

The eruption of price increases in the past two months has raised questions about the prospect of keeping inflation in check over the long term. There is serious concern that this spurt will set off a new spiral of accelerating price-wage-price inflation comparable to the pattern of 1965-1970.

Public discussion of this issue -- of what was responsible for the burst of price increases and what should be done about it -- has focused almost exclusively on Phase III of the price and wage controls. This emphasis on the controls is worrisome, since it threatens to divert our attention from the basic causes of the situation and from the main targets of economic policy.

Our present system of flexible price and wage controls can make an important contribution to the anti-inflation effort, as it did during 1972. But what happens to inflation during 1973 and 1974 does not depend solely or even predominantly on the controls program. What it does depend on, fundamentally, is the economic pressure of demand upon supply.

Most of our recent inflation has been of this nature. Demand for foodstuffs -- especially red meats -- has climbed sharply because of rising incomes, but supply did not increase. Under those conditions, a temporary upsurge in food prices was inevitable.

The importance of the spurt in food prices over the past two months -- both the public perception of this spurt and the

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impact of food on the price indexes themselves -- can hardly be overstated. The public is always sensitive to rising prices, but especially food prices because the shopper comes face-to-face with them a couple of times a week. And although food represents only about one-fourth of the total weight in both the consumer price index and the wholesale price index, it has accounted for almost two-thirds of the rise in these indexes since January.

To be sure, there have also been many price increases among industrial commodities. The most important of these have also followed the pattern of food; that is, they have been in economic sectors characterized by rapidly increasing demand and/or limited supply. For example, the largest price increases have come in lumber (due to the homebuilding boom), petroleum (the fuel oil shortage) and nonferrous metals (the vigorous business expansion here and abroad).

The fact that these three industrial sectors, together with food, account for the dominant part of the rise in wholesale prices over the past couple of months points up the need to pursue economic policies that get at the fundamentals, and not just the symptoms, of the inflation problem:

-- to expand food supplies by increasing cropland acreage, selling government-owned stocks of grains, suspending meat import quotas, and making other major changes in farm policies;

-- to increase the available supply of nonferrous metals and other commodities by selling excess inventories from government stockpiles;

-- to increase gasoline and fuel oil supplies by ending oil import quotas;

-- to maintain a tight rein on the budget to keep the economy from running away with itself. Of all the policy steps taken, this is the most important. We must not repeat the mistakes of 1965-68 when, at a time of full employment, massive budget deficits in combination with an excessively easy monetary policy created a runaway inflation. To prevent that unhappy pattern from taking place again, President Nixon is determined to resist the many pressures for increased Federal spending and to hold the budget to noninflationary levels.

Finding the right combination of economic policies to keep the economy on a stable growth path without excessive inflation is not a simple matter. No safe or sure or painless or instantaneous solution is available. But we can be confident that the policies now in place -- the resolute posture on fiscal and monetary policies, the substantial actions to increase supplies of commodities with shortages, and the flexible but forceful controls over prices and wages -- will prevent the present temporary spurt in prices from becoming an endless inflationary spiral.

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Department of the TREASURY
WASHINGTON, D.C. 20220 TELEPHONE W04-2041
NEWS
THE DEPARTMENT OF THE TREASURY 1789
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FOR IMMEDIATE RELEASE April 24,1973

THE EMERGENCY LOAN GUARANTEE BOARD

The Emergency Loan Guarantee Board received notice today from Lockheed Aircraft Corporation that it would not borrow an additional $20 million from its lending banks, under Government guarantee, approved by the Board at its April 18, 1973 meeting. Presently, the lending banks have loaned Lockheed, under Government guarantee, $150 million of the $250 million authorized under the terms of an agreement between Lockheed and the Emergency Loan Guarantee Board.

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

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ATTENTION: FINANCIAL EDITOR April 24, 1973

FOR RELEASE 6:30 P. M.

RESULTS OF TREASURY'S MONTHLY BILL OFFERING

The Treasury Department announced that the tenders for $ 1,800,000,000 or thereabouts, of 344-day Treasury bills to be dated April 30, 1973 , and to mature April 9, 1974 , which were offered on April 18, 1973 , were opened at the Federal Reserve Banks today.

The details of this issue are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS: (Excepting one tender of $320,000)

High	-	93.755	Approx. equiv. annual rate	6.535% per annum
Low	-	93.674	Approx. equiv. annual rate	6.620% per annum
Average	-	93.695	Approx. equiv. annual rate	6.598% per annum 1/

(79% 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	$ 24,725,000	$ 14,725,000
New York	2,550,420,000	1,396,790,000
Philadelphia	18,145,000	3,145,000
Cleveland	2,750,000	2,750,000
Richmond	22,000,000	7,150,000
Atlanta	16,095,000	5,095,000
Chicago	389,245,000	240,170,000
St. Louis	97,810,000	66,810,000
Minneapolis	22,500,000	6,080,000
Kansas City	19,555,000	10,805,000
Dallas	23,325,000	2,325,000
San Francisco	165,495,000	44,595,000
TOTALS	$3,352,065,000	$1,800,440,000 2/

1/ This is on a bank discount basis. The equivalent coupon issue yield is 7.02 %.

2/ Includes $40,480,000 entered on a noncompetitive basis and accepted in full at the average price shown above.

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

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FOR IMMEDIATE RELEASE April 25, 1973

AMENDMENT TO TREASURY'S WEEKLY BILL OFFERING

The Treasury Department, by this public notice, amends its invitation for tenders dated April 24, 1973, for weekly Treasury bills.

The aggregate amount of tenders invited for the two series shall be $4,300,000,000 in place of the $4,200,000,000 invited in the April 24 announcement. The amount of tenders invited for 91-day bills shall be $2,500,000,000, or thereabbuts, instead of $2,400,000,000 as announced on April 24.

This amendment will increase the amount of bills to be issued on May 3 to the approximate amount maturing on that date.

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

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April 25, 1973

NOTE TO CORRESPONDENTS:

Attached is a letter from the Secretary of the Treasury and the Secretary of Commerce to presidents of business firms in the United States which file regular statistical reports to one or both Departments for the purpose of compiling statistics on international capital transactions in the U.S. balance of payments.

The request is specifically designed to ensure that data reported within the existing statistical reporting system are as complete and accurate as possible, particularly for the first quarter of 1973.

It is hoped that the request will lead to a better understanding of the sources and nature of the unusual capital flows of recent months.

THE SECRETARY OF THE TREASURY
WASHINGTON

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April 23, 1973

The recent period of international monetary disturbances was accompanied by large movements of funds out of the United States and from the dollar into foreign currencies. While these flows of funds have aroused widespread public interest in this country and abroad, neither the United States Government nor the governments of countries which were the major recipients of these funds have adequate information concerning the nature of these movements. The 14-nation monetary meeting in Paris last month, in which the United States participated, announced the need to seek more complete understanding of the sources and nature of these large capital flows.

The established statistical reporting systems operated by the Department of the Treasury and the Bureau of Economic Analysis of the Department of Commerce are designed to obtain comprehensive data on international capital transactions in the U.S. balance of payments, and together provide reasonably adequate information under normal conditions. However, the extent of transactions in the balance of payments for which no data have been recorded - the so-called "errors and omissions" - indicates that many transactions escape the statistical system in periods when unusual flows take place. Because of the importance of an adequate explanation of the recent events, we are convinced that a major effort must be made to ensure that responses to the present reporting forms are thorough and accurate, and that the reporting system is properly designed.

We are asking you, therefore, to undertake a policy level review within your firm to ensure that the statistical data which are reported on the Treasury and Commerce forms for the first three months of this year are complete, consistent and accurate. They should reflect all of your financial relationships with foreigners, including those with your own foreign branches and subsidiaries or foreign parent or head office, except to the extent that the reporting exemptions apply. Please see the enclosed material for details.

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Our primary objective is to ensure that the data reported for December 31, 1972 and the first quarter of 1973 in both the Treasury and Commerce data systems are as accurate and complete as possible, to enable us to analyze the movements which occurred during the first quarter. We believe the interests of the business community coincide with our own in establishing accurate information on recent flows. In addition, the review should, of course, produce continuing improvements in reporting. We would also like to be advised of any types of international capital transactions of your firm which do not fit into the categories provided in these forms, and which therefore are not reported.

We will appreciate it very much if you will give this matter your personal attention. We are sure you recognize the importance to the U.S. Government and to the business community of an objective and factual understanding of these capital movements.

Sincerely yours,

George P. Shultz
Secretary of the Treasury

Frederick B. Dent
Secretary of Commerce

Enclosure

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Review of Reporting on the Treasury Foreign Exchange forms and the Commerce Direct Investment forms

Firms in the United States whose transactions with foreigners result in financial liabilities to or claims on foreigners or investment positions in foreign affiliates above specified exemption levels are required to report on the Treasury Foreign Exchange forms or the direct investment forms of the Bureau of Economic Analysis of the Commerce Department, or both. The relevant Treasury Foreign Exchange forms cover liabilities to and claims on non-affiliated foreigners (Forms C-1/2 and C-3) and securities transactions directly with foreigners (Form S-1). The Treasury reports are filed with the Federal Reserve Bank of New York, as fiscal agent of the Treasury. The Commerce direct investment forms cover the accounts of business firms in the United States with their overseas subsidiaries and branches (BE-577 and 578) or their overseas parents or head offices (BE-605 and 606). These two reporting systems are designed to cover, without duplication, all of the capital transactions between firms in the United States and non-resident firms and individuals. They are part of a standard statistical system providing data for the balance of payments, and are separate from the reporting requirements of the Office of Foreign Direct Investment of the Commerce Department.

We are asking firms reporting on these forms to undertake a searching review of their procedures to ensure that data reported on the Treasury and Commerce forms are complete, consistent and accurate. If your firm is filing reports in only one of these statistical systems, or is not currently filing in either of them, please check carefully to be sure that your firm is in fact exempt from the filing requirements. If you file reports on both the Treasury and Commerce forms and they are prepared in different parts of your firm's organization, please have them reviewed together to be sure they are properly coordinated within your firm.

The initial objective of this review is to ensure that the data reported for December 31, 1972 through March 31, 1973 in the Treasury system, and for the first quarter of 1973 in the Commerce system, are as accurate and complete as possible. We expect, of course, that any improvements which result from your review will continue in future reports.

Please complete the review of your reporting procedures as soon as possible, but do not delay sending your Treasury reports for March 31, 1973 or your Commerce reports for the first quarter 1973 on schedule. If you revise the basis of your March 31 Treasury reports as a result of your review, your March reports must be accompanied by comparable revised reports for December 31, 1972 and succeeding months. If you cannot provide comparable revised reports for the earlier months at the same time, please submit your March 31 Treasury reports on the unrevised basis, and provide revised reports for December 31, 1972 through March 31, 1973, marked "Revised Report," as soon as possible, but no later than June 30, 1973. If you revise the basis of your first quarter 1973 Commerce report as a result of the review, please so indicate in your letter of transmittal. If you complete the review after your first quarter Commerce report is submitted, and the basis of your reporting changes, please submit a revised Commerce report for the first quarter, marked "Revised Report," as soon as possible, but no later than June 30, 1973.

Revisions of the Treasury reports should be sent to the Balance of Payments Division, International Research Department, Room 929, Federal Reserve Bank of New York, New York, New York 10045; revisions of the Commerce reports should be sent to the Bureau of Economic Analysis, International Investment Division, BE-50, Department of Commerce, Washington, D. C. 20230. Copies of blank forms can be obtained from these offices if needed.

If your review shows that all required data are being properly reported in both reporting systems, or that you are exempt from one or both reporting requirements, please send statements to that effect to the offices specified above.

If you have questions regarding the Treasury reports, please telephone or write:

Miss Marie Collins, Reports Specialist
Balance of Payments Division
International Research Department
Federal Reserve Bank of New York
New York, New York 10045
(212) 732-5700 extension 742

or

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Mr. C. L. Callander
Director, Office of Statistical Reports
Office of Assistant Secretary for
International Affairs
Department of the Treasury
Washington, D. C. 20220
(202) 964-5577

If you have questions on the Commerce forms, please call or write:

Mr. Julius N. Freidlin
Chief, Direct Investment Branch
International Investment Division
Bureau of Economic Analysis
U. S. Department of Commerce
Washington, D. C. 20230
(202) 638-6269

April 23, 1973

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

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FOR IMMEDIATE RELEASE April 25, 1973

SPEECH BY DR. WILLIAM JOHNSON
ENERGY ADVISER TO
DEPUTY SECRETARY OF THE TREASURY WILLIAM E. SIMON
BEFORE THE
MAINE OIL AND HEATING EQUIPMENT DEALERS ASSOCIATION,
PORTLAND, MAINE
APRIL 24, 1973

I am honored to have this opportunity to meet with you today. The oil jobbers are an important segment of our petroleum industry.

I am especially pleased to be speaking with you in the wake of the President's recent actions which, I suspect, are of the greatest interest to you now. On April 18, the President issued a comprehensive energy message. One element of the new energy program is a major restructuring of the oil import program. Specific changes include the suspension of all quantitative controls on imports, the removal of existing tariffs, and the initiation of license fees on crude oil and product imports.

The problems of the independent segment of the industry were among the factors given weight in the new program. Indeed, had it not been for the independents, the changes in the program might have been announced much sooner.

One of our problems was how to balance the need to preserve the independent segment of the industry with other objectives of national importance such as the rapid construction of refineries in the U.S. and the exploration for new supplies.

Perhaps the major benefit of the new program is the flexibility that it provides to importers. For the first time since mandatory controls were imposed in March 1959, independent marketers will be able to shop for supplies of oil anywhere in the world. They will no longer be dependent entirely on their traditional domestic sources of supply or occasional foreign sources. Moreover, through the availability of fee-exempt licenses issued by the Oil Import Appeals Board, independent marketers should have access to products on terms more favorable than their major competitors, for the remainder of this decade. This should provide the time required by the independent marketers to make those changes necessary to protect their market position.

At the risk of over-generalization, let me begin with the observation that the "energy crisis" is largely the result of past policies which were ill-conceived or have now become outmoded. A good example is the regulation of natural gas. The operations of interstate natural gas pipelines are subject to regulation, as was originally and properly intended by the Congress. The problem, however, arises from the fact

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that the price of the natural gas supplied to these pipelines by thousands of independent producers is also regulated. The well head price of gas has been arbitarily kept at too-low a level in the mistaken belief that this is helping the consumer. As a result wellhead production has been discouraged and we are today faced with serious shortages of gas. This shortage is resulting in the nation having to deny new gas supplies to many of the same consumers that price controls were supposed to help.

President Nixon is asking Congress to deregulate the price of new gas paid to producers. This action should significantly increase our supplies of natural gas over the long run.

Past policies with respect to gas, as well as coal and nuclear power, have had the effect of shifting consumers from these sources of energy to oil. Because past policies have also discouraged domestic production of oil, we have been forced to shift demand to imported oil, thus creating the oil import crisis that now confronts the country.

The Mandatory Oil Import Program was established at a time when domestic production was in excess of demand, and it was founded on the premise that the restriction of imports of cheap petroleum was needed to support growth of the domestic petroleum industry in the interest of national security. This national security objective is still a valid basis for our oil policy. However, the conditions which gave rise to the Mandatory Oil Import Program, and, especially, the quota system, no longer exist. It is for this reason that we are now moving from a quota to a license fee program.

Our objective is to create a program that will assure the oil industry the flexibility needed to satisfy the short-term petroleum needs of U.S. refiners and consumers while, at the same time, provide longer-term stability and incentives necessary for increased domestic exploration and production and new refinery construction and expansion.

We also have other objectives:

1. To provide to the independent segment of the petroleum industry greater assurance of survival than now exists. This includes building government protection into the system for the period of time necessary for the independent segment to establish itself and to become truly independent.

2. To protect the consumer from price increases in excess of those needed to insure adequate incentives for the domestic production of oil and oil products.

3. To begin phasing out the many exceptions and special deals that have cluttered the old program and made it very largely unworkable.

I can tell you from direct experience that trying to balance all these objectives has not been easy. In developing a new policy we have encountered conflicts among policy goals, again and again. And we have tried as best we can, to do our

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best to reconcile these conflicts, although we have no illusions that what has emerged will be fully satisfactory to all parties.

One basic purpose of the new policy is to protect consumers. This means avoiding unnecessarily high prices. But, it also means assuring that prices are high enough to stimulate a level of production that is necessary to meet demand. The fact is that we have been charging too little too long for our energy sources on a nationwide basis, including oil and oil porducts as well as natural gas, and that this, more than any other factor, is the root cause of the energy crisis with which we are confronted today. It is little comfort to consumers to know that they have the privilege of paying a low price for something they cannot buy.

The President's new energy program also does several things to try to strengthen the position of the independent marketers, enabling him to establish himself on a more enduring basis.

1. Outstanding import licenses will be honored free of license fee. Since the independents hold a disproportionate share of these licenses, this provides value to their tickets where none existed previously. Independent marketers will be able to import oil at less cost than majors. As a result, the major should now have greater incentive to trade with the independents.

2. To provide greater value to the independents' tickets, we have suspended existing tariffs. Had we not done this, the independents' ticket value would have been lower. The only other way to retain the value created under the new program was to have the consumer pay substantially higher prices.

3. The Oil Import Appeals Board (OIAB) has been granted unlimited authorization of fee-exempt import licenses, and has been given the specific responsibility of helping the independent refiners and marketers through the period of transition that is to come. Major oil companies may also appeal to the Oil Import Appeals Board, but must demonstrate their inability to obtain import licenses by exchange from among those already distributed or their willingness to supply established independent marketers and refiners with the same proportion of crude oil or products supplied in 1972.

The independents still have problems that have not, and cannot probably, be solved by changes in the oil import program alone. The independent marketers depend for their economic well-being on excess production by the major oil companies. A condition of excess production, unhappily, no longer exists largely because we, as a nation, have discouraged domestic exploration for oil and refinery expansion and construction. The independants have also depended heavily on special provisions of public policy. Neither factor provides a sound

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long-run basis for this segment of the industry. To build this basis, I see no alternative but for greater movement by marketers into domestic refinery construction. This I recognize is not an easy solution.

Here in New England, for example, at least three proposals for new refineries have been rejected in recent years in the belief that refineries must necessarily pollute the environment. Had these refineries been built we would be in far less serious difficulties than we are now.

Happily, the nation is beginning to realize that its unthinking opposition to new refinery construction has been an error.

For with modern technology, refineries can be designed and built to operate today so that they do not pollute surrounding air or water. They do not have to give off obnoxious smells. Waste water from them can be treated to be clean and crystal clear. And economically, these refineries can provide numerous benefits to the area. For example, they can produce a variety of oil products that are programmed to meet local market needs. They pay local taxes. They provide stable employment.

We have also delayed development of the Atlantic Outer Continental Shelf, even though seismic tests indicate that it may contain substantial reserves of oil and natural gas. If these reserves prove out, and refineries are allowed to be built in New England, the energy problems of this region could end. For the plain fact is that, the closer to the source of supply of oil, the more assured is access to that supply during a crisis and the lower its price to the consumer.

The high cost of energy has been a major issue here in New England for many years. However, primary dependence on imports of foreign oil is not the answer to New England's problem. Import prices are now equal to or above domestic prices. Nor does the Middle East, the primary source of future additional oil imports, appear to be a stable source of supply for this region or the nation as a whole.

Domestic production is ultimately the answer to New England's oil problems. But this will take a willingness on the part of the people of New England to allow expansion of the industry here. Unless New England permits expansion of the industry within its boundaries, it will continue to pay higher prices for its gasoline and heating oil relative to the rest of the nation.

In brief, the long run solutions to the problems of the New England independent marketer and the New England consumer are the same. The solution is to begin to drill in the Atlantic and to build new refineries in New England. Then, and only then, will the marketers and the consumer become truly independent.

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

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FOR IMMEDIATE RELEASE April 25, 1973

TREASURY ANNOUNCES PAYDOWN ON MAY REFINANCING

The Treasury announced today that it will auction to the public up to $2.0 billion of 7-year 6-7/8% notes and up to $650 million of 25-year 7% bonds to provide funds for refunding part of the $4.3 billion of notes maturing on May 15. The Treasury said that it will use available cash to handle the balance of the maturities. Additional amounts of the notes and bonds will be allotted to Government accounts and the Federal Reserve Banks in exchange for their holdings of the maturing notes, which total $5.3 billion.

The securities to be auctioned to the public will be:

Up to $2.0 billion of 6-7/8% Treasury Notes of Series A-1980 dated May 15, 1973, due May 15, 1980, (CUSIP NO. 912827 DL3) with interest payable on May 15 and November 15, and

Up to $650 million of 7% Treasury Bonds of 1993-98, dated May 15, 1973, due May 15, 1998, callable at the option of the United States on any interest payment date on and after May 15, 1993, (CUSIP NO. 912810 BP2) with interest payable on May 15 and November 15.

The notes and bonds will be issued in registered and bearer form in denominations of $1,000, $5,000, $10,000, $100,000 and $1,000,000.

Tenders for the notes will be received up to 1:30 p.m., Eastern Daylight Saving time, Tuesday, May 1, 1973, and tenders for the bonds will be received up to 1:30 p.m., Eastern Daylight Saving time, Wednesday, May 2, 1973, at any Federal Reserve Bank or Branch and at the Office of the Treasurer of the United States, Washington, D. C. 20222; provided, however, that noncompetitive tenders will be considered timely received if they are mailed to any such agency under a postmark no later than April 30 for the notes and May 1 for the bonds. 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 for the notes must be expressed on the basis of 100, with two decimals, e.g., 100.00. Tenders at a price less than 98.26 for the notes will not be accepted. Tenders at the highest prices will be accepted to the extent required to attain the amount offered. Successful competitive bidders for the notes will be required to pay for the notes at the price they bid. Noncompetitive bidders will be required to pay the average price of all accepted competitive tenders.

The price on competitive tenders for the bonds must be expressed on the basis of 100, with two decimals in a multiple of .05, e.g., 100.10, 100.05, 100.00, 99.95, etc. Tenders at the highest prices will be accepted to the extent required to attain the amount offered. All accepted tenders for the bonds will be awarded at the price of the lowest accepted bid.

Fractions may not be used in tenders. The notation "TENDER FOR TREASURY NOTES" or "TENDER FOR TREASURY BONDS" should be printed at the bottom of the envelopes in which the tenders are submitted.

(OVER)

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 for the notes will be accepted in full at the average price of accepted competitive tenders and noncompetitive tenders for $250,000 or less for the bonds will be accepted in full at the same price as accepted competitive tenders. The prices may be 100.00, or more or less than 100.00.

Commercial banks, which for this purpose are defined as banks accepting demand deposits, may submit tenders for account of customers provided the names of the customers are set forth in such tenders. Others than commercial banks will not be permitted to submit tenders except for their own account.

Tenders will be received without deposit from commercial 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 Tuesday, May 15, 1973 at the Federal Reserve Bank or Branch or at the Office of the Treasurer of the United States in cash, 4-3/4% Treasury Notes of Series E-1973 or 7-3/4% Treasury Notes of Series A-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 securities 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 Thursday, May 10, 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 Tuesday, May 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 securities 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 securities bid for under this offering at a specific rate or price, until after 1:30 p.m., Eastern Daylight Saving time. Tuesday, May 1, 1973, in the case of the notes, and until after 1:30 p.m., Eastern Daylight Saving time, Wednesday, May 2, 1973, in the case of the bon

OWNERSHIP OF THE MAY 15, 1973 MATURITIES

(In millions of dollars)

	4-3/4% Note	7-3/4% Note	TOTAL
Commercial banks...............	651	1,629	2,280
Mutual savings banks...........	11	47	58
Insurance companies:			
Life.........................	1	5	6
Fire, casualty and marine....	*	43	43
Total, insurance companies.	1	48	49
Savings and loan associations..	20	76	96
Corporations...................	32	72	104
State and local governments....	71	238	309
All other private investors....	408	1,030	1,438
Total, privately held........	1,194	3,140	4,334
Federal Reserve Banks and Government Accounts..........	2,598	2,704	5,302
Total outstanding..............	3,792	5,844	9,636

Office of the Secretary of the Treasury
Office of Debt Analysis

April 25, 1973

*Less than $500 thousand.

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

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FOR IMMEDIATE RELEASE

STATEMENT BY THE HONORABLE PAUL A. VOLCKER
UNDER SECRETARY OF THE TREASURY FOR MONETARY AFFAIRS
AND
TEMPORARY ALTERNATE GOVERNOR FOR THE UNITED STATES
BEFORE THE SIXTH ANNUAL MEETING
OF THE
BOARD OF GOVERNORS, THE ASIAN DEVELOPMENT BANK
MANILA, THE PHILIPPINES
THURSDAY, APRIL 26, 1973

Mr. President, Fellow Governors, and Distinguished Guests:

I want to speak with you today primarily about some of the opportunities and problems we face together as we approach the future of this Bank, of this region, and of the millions of people who inhabit this vast and important area of the globe. Before doing so, however, I first take special pleasure in officially greeting our new President, Shiro Inoue. I know all of us who have worked with him in other areas in the past share confidence in his leadership -- a leadership essential to the success of our joint effort.

I also want to welcome the Solomon Islands as the 39th Member of the Asian Development Bank and the prospective entry of Burma. In a real sense, their entry both marks the forward

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progress of our Institution, and represents the continuing challenge of economic development.

I would add the thanks of my Government to the people of The Philippines for their hospitality, and especially for the faith and confidence in the Bank they have demonstrated so tangibly. In a striking way, this impressive building symbolizes the coming of age of the Asian Development Bank, and the important responsibility it has assumed as a permanent catalyst for Asian development.

I am also pleased that five Members of the American Congress have accompanied me to Manila as Advisers. The participation of the United States in this Institution is, and must be, a joint enterprise in which the Congress and the Executive work together as partners. For that reason, I am glad that we also had the opportunity to pause in Korea together to view first-hand some of the early results of the Bank's efforts to finance development.

The Governor for the United States, Secretary of the Treasury George Shultz, regrets that he cannot be with you this week. On his behalf, I extend the best wishes of President Nixon, as well as his own, to the Members and to the Management of the Bank.

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We meet at a critical time, not just for this Bank and for the development of Asia, but for the economic system of the world as a whole. We have seen repeated and widespread monetary disturbances in recent years. Points of strain and tension have arisen in trading relationships among nations. New questions have arisen about the development process and means of financing it.

Problems of this sort are never welcome. But let us recognize that they are a part -- perhaps an inevitable part -- of the process of vast change in the world economy since our basic trading and monetary institutions were shaped at the end of World War II, almost 30 years ago.

Certainly, most of these changes -- viewed in a world perspective -- have been for the better. Economic strength and power is more widely distributed among the industrialized countries. Individually, more of the developing countries have made particularly rapid strides in improving their standard of living. As a group, they are more conscious of their needs and their opportunities, and better prepared to play an effective role in the decision-making process.

The challenge is not to resist this process of change.

Rather, we want to re-examine our practices and reconstruct our institutions in a manner that will insure that change serves our common interest in economic prosperity and political harmony.

In this process, it is vital that the developed and developing nations work together. For that reason, we in the United States have welcomed the participation of the developing countries of Asia, as well as other continents, in the work of the Committee of 20. Similarly, we also recognize that constructive revision of our trading practices and rules must strike a fair balance between the legitimate interests of individual nations -- including the developing nations -- and the need for a common and cooperative approach.

It is in that spirit that President Nixon has proposed to the Congress broad new authority for trade negotiations. The fundamental premise of that legislation is that every nation can and should benefit from expanding trade and open trading practices within the basic framework of a competitive market system. But that "openness" must also be combined with fairness for all nations.

The President has requested authority of unprecedented

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scope to engage in multilateral trade negotiations. This authority would include -- and look toward -- reductions in both tariff and non-tariff barriers.

At the same time, the legislation would recognize that open markets and free trade can, in some instances, bring change with disruptive speed. The United States, like other countries, needs effective safeguards when surges in imports bring excessive hardship to domestic workers and businesses. We believe such safeguards -- designed not to avoid adjustment but to ease adjustment for a transitional period -- can most effectively be worked out on a consistent multilateral basis.

Our proposed legislation also recognizes that progress in reducing trade barriers for the United States can be sustainable only in a context of a perception that our own products receive fair and non-discriminatory treatment by others. For that reason, our proposed legislation would provide improved authority to respond effectively to restrictive and discriminatory practices of others -- if necessary, by restricting their access to our markets.

Another significant provision of the Bill would permit the United States to join with other industrialized countries to improve the access of developing countries to our markets. Duty-free treatment would be provided for a broad range of manufactured products now regulated by tariffs in instances where countries in the early stages of industrialization are beginning to seek out foreign markets.

As we start this Sixth Annual Meeting and plan for the new year, a challenge for our development efforts -- and particularly for the Asian Development Bank -- is evident. The hopeful prospects for peace in Indochina should open the way to improvement in the lot of millions who have not known peace for decades. Here is constructive work, not only for the nations represented here, but for all countries and peoples ready to cooperate.

But the effort will not organize itself. We believe the Bank -- founded by Asians, with a mandate to help Asia -- can and should play a key role in the needed international effort. We look to the Bank to work with other institutions and to involve diverse donor nations in the process of re-building the economies of those countries of Indochina who seek an end to hostilities.

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The Bank, in fact, has already identified specific projects in Laos, the Khmer Republic and the Republic of Vietnam, and committed funds for them. Other projects are in the pipeline and should be ready for consideration later this year.

The study of Southeast Asian economies and the regional transportation survey sponsored by the Bank show the breadth of its field of activities. Its expertise should aid all who may become involved in the effort to build for peace.

Historically, the United States has long been involved in efforts to bring stability and economic progress to Asia. We have important political and economic relationships which tie us closely to this part of the globe and its energetic and proud people. We intend to maintain those ties, not least by cooperating in the efforts, symbolized by the Asian Development Bank, to build strong economies.

Having said that much, it is obvious that, if the Bank is to play its part in furthering the development process, it must be adequately funded. In that respect, pointed and legitimate questions can be directed at the United States. I owe you a full and frank exposition of our position.

Obviously, as with all nations, the ability of the United States to support development finance institutions at any point in time depends on our total economic and financial situation. Budgetary priorities and balance of payments considerations apply to my country as well as to yours. And, unlike many other countries, this question of priorities is subject to independent Executive and Congressional review -- essentially, funding requests must pass a double hurdle.

At home, the total budget has been under rigorous restraint because of inflationary problems. We have made substantial cutbacks in budgetary allocations from earlier projections for a number of domestic programs. We are not able to meet all the vast demands for added expenditures for such purposes as controlling pollution, rebuilding decaying cities, or assisting the poorer American citizen -- of whom there are still far too many.

At the same time, when the dollar has been under recurrent attack in world markets, the urgency of restraining overseas spending to help deal with our balance of payments problem is obvious.

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Faced with this situation, I sometimes hear persons in less-developed countries say that the United States is a big and strong country; it has had a balance of payments deficit for years; it should not worry about its balance of payments now. But we are concerned -- and we must be. Weakness of the dollar and monetary instability is not in our interest or yours. The time has long since come to end the deficits that underlie that weakness. We have moved to do so primarily by achieving exchange rate and trading relationships that permit us to compete effectively. But, as part of the process, no foreign expenditure can expect to escape searching review.

I would emphasize that the President, in assessing these budgetary and balance of payments constraints, feels strongly that our past pledges of funds to the Asian Development Bank deserve priority. The appropriation from the Congress for the long-delayed $100 million contribution to the Special Funds remains high on our agenda. We are also requesting from the Congress authority to provide $362 million of ordinary capital over a three-year period -- an amount that would restore our previous relationship among the Bank's Members.

We will continue to press for those funds. Nevertheless, I must tell you bluntly that the Congressional prospects -- as Congress independently examines the priorities -- remain uncertain. We can be optimistic only by demonstrating effectively this Bank's crucial role in building stronger economies in Asia -- and thus in contributing to a peaceful world.

In this connection, I am gratified by the evidence that, in the past year, the Bank has further increased its effectiveness -- working with more Member countries, providing more needed expert technical assistance and, not least, financing more projects.

At the same time, I must be equally candid in saying that, as part of the process of defending budgetary priority for the Bank and assuring future support, we must look toward improvement in certain operational matters. In that connection, we have upon a number of occasions cited our concern about the low procurement share United States' firms have received from ADB-financed projects -- low in terms of absolute volume, low in terms of relative share, and low in trend.

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Whatever the reason, this is a situation incompatible with strong legislative support. I do not say that the situation reflects either deliberate or inadvertent Bank policy -- the evidence I have seen is to the contrary. Rather, it was partly a symptom of exchange rates that were out of line. Moreover, in many instances, U. S. business may not have been sufficiently aggressive in seeking out the opportunities across the broad Pacific. Perhaps, we, in Government, have not been active enough in assuring that information about projects and contracts is widely disseminated.

We have now taken steps to repair those deficiencies within our control. We hope and expect to see improved results. We must do so to end what has become a very difficult situation in obtaining legislative and public support.

In this same spirit of candor, allow me to urge that the time has come for the Bank to establish a capacity for independent evaluation of the efficiency and effectiveness with which its funds have been utilized. With eight projects finished -- and others nearly so -- we are in a position for the first time to raise -- and to answer -- legitimate questions about the fruits of the Bank's efforts.

After some hesitation, the World Bank and the Inter-American Development Bank have each adopted such "post-audit" mechanisms and procedures. This approach can go a long way toward maintaining the full confidence of donor governments. With experience, Management, itself, has come to see the benefits from objective evaluation of their work. In the long run, I believe, recipient countries can only gain as well.

Finally, after six years of operations, a review of the Bank's organization and its procedures is timely. We hope the Management and the Executive Board will initiate such an effort in the next year.

None of these comments in any sense call into question the excellent job the Bank Management has done. It simply means that enough time has passed, and enough experience has been gained, to permit constructive review. Our procedures and methods should be changed to meet current needs in the most effective way.

The world economy has changed in many ways. Over the years since World War II, other industrialized nations have grown into economic strength and stability, able to carry a larger share of the responsibility for advancing the development of others. Some poorer countries have made enormous strides toward self-confidence -- while others plainly require a lift from abroad to help break a vicious cycle of poverty, inefficiency, and dependence. Not least are the fresh opportunities and challenge provided by the prospect of peace in Indochina.

All these external changes find their reflection in the internal work of the Asian Development Bank. We press for change within the Bank in a constructive spirit, as we press at home to provide an appropriate share of the resources the Bank requires. Let there be no doubt -- we remain committed to the Bank and to the purposes for which it stands.

Thank you.

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FOR IMMEDIATE RELEASE April 26, 1973

NATHAN N. GORDON NAMED TO NEW POST OF DEPUTY TO THE ASSISTANT SECRETARY (INTERNATIONAL TAX POLICY)

Treasury Secretary George P. Shultz today announced establishment of the new post of Deputy to the Assistant Secretary for Tax Policy (International Tax Policy) and the designation of Nathan N. Gordon to that position. Mr. Gordon is currently an Assistant Director of the Office of Tax Analysis.

Under the general direction of Frederic W. Hickman, Assistant Secretary for Tax Policy, Mr. Gordon has been assigned various responsibilities in the international tax area, including responsibility for the negotiation of international tax treaties and the coordination of studies and other activities of the Treasury staffs concerned with international tax matters.

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

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April 27, 1973

NOTE TO CORRESPONDENTS:

Under Secretary for Monetary Affairs Paul A. Volcker will visit India, Sri Lanka, Indonesia and Australia to hold discussions with government officials on international monetary and trade matters. The discussions will focus on the work of the Committee of Twenty on international monetary reform.

The visits will follow the conclusion this weekend of the Annual Meeting of the Asian Development Bank in Manila, where Mr. Volcker is presently leading the U.S. delegation. Mr. Volcker is expected to return to Washington about May 8.

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For Release at 10 a.m. (E.D.T.) Monday, April 30, 1973

NOTICE: *Secretary Shultz's tax testimony and all related data, written and oral, are provided in advance for purposes of convenience and clarity. There is a total embargo, including allusions and paraphrases, on all these materials until the hour set by the Ways and Means Committee for the Secretary's appearance.*

Proposals for Tax Change

Department of the Treasury

April 30, 1973

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STATEMENT OF THE HONORABLE GEORGE P. SHULTZ
SECRETARY OF THE TREASURY
BEFORE THE HOUSE WAYS AND MEANS COMMITTEE
MONDAY, APRIL 30, 1973, 10 A.M.

Mr. Chairman and members of this distinguished Committee, I am pleased to be with you this morning to discuss President Nixon's tax proposals.

A tax system as complicated as ours requires constant attention to keep it fair and efficient. The record shows that this Administration is dedicated to that effort. This is the third time in four years that we have presented major recommendations to your Committee. The first of these occasions was 1969. Acting upon the President's 1969 recommendations, Congress enacted changes which corrected a long list of inequities and inefficiencies. Your Committee stated in its report that it was not aware of any prior tax reform bill of equal substantive scope.

In 1971, we came back to you with additional proposals. The revenue act adopted later that year carried forward the relief for our lowest income classes which President Nixon had recommended and which Congress commenced in 1969. Our proposals in 1971 also recognized the key role which taxes can play in providing incentives for basic growth in the economy. Modest tax incentives which appear by their terms to benefit a few can create jobs and prosperity for everyone. The entire country is the winner when that occurs. The Revenue Act of 1971 was enacted in that philosophy and, at the President's recommendation, it reinstituted the investment credit and endorsed liberalized depreciation rules. Those measures have contributed greatly to the resurgence of our economy in the last 18 months.

We cannot expect to overhaul the entire tax system every two years. It is basically a sound system and we have made far-reaching improvements in it in the last four years. Nonetheless, I am pleased today to recommend to you a series of modifications which we believe will be major contributions to the fairness of the revenue system, to its efficient operation, and to the well-being of our nation as a whole.

There are three basic goals to which our recommendations are directed. They are:

- o Tax equity. We must ensure that all persons pay their fair share. There is, of course, no single way to define a fair share. Individual opinions differ. Nonetheless, we must have a system which most of the public accepts as fair.
- o Simplification. Many provisions of tax law that affect large numbers of individual taxpayers are inordinately complicated. The annual tax return form may never provide pleasure, but it need not be a nightmare.
- o Economic growth. The tax system must be conducive to the stable growth of our domestic economy and the long-run improvement of our position in world markets. Any change in the tax law

that impedes the productivity of our national economy will risk the loss of the prosperity we now enjoy. Certain provisions in the tax law which stimulate economic growth must be preserved.

Before I outline our specific recommendations, I should like to review with you the perspective in which we have approached, in 1973, the general subject of changes in our tax system.

We should note, first, that our revenue system has been spectacularly successful in raising the revenues required to run our country. The cooperation of individual citizens makes our system the envy of the modern world. We must do nothing to impair that cooperation. We must deal effectively with aspects of the system that may undermine confidence in it and, therefore, cooperation with it.

Second, under our progressive tax system those with high incomes pay proportionately more than those with low incomes. The changes made by the 1969 and 1971 legislation were markedly progressive in their effect. This is apparent from Table 1, which indicates that in the four years from 1969 to 1972, the greatest percentage reductions in tax have been made in the low income groups, that substantial reductions have been made in the middle income groups, but that significant increases have been made in the income levels above $100,000. The large decreases in tax for the low income groups flow primarily from the President's 1969 recommendation to Congress of a low income allowance, which, when coupled with the increase in the personal exemption, removed from the federal income tax rolls substantially all persons below the poverty levels. That principle was updated in the 1971 Revenue Act. Thus, for 1972 and subsequent years, single persons earning less than $2,050 will pay no federal income tax, nor will a family of four pay tax if it earns less than $4,300.

Third, the aggregate income taxes paid by individuals have not increased significantly as a percentage of personal income for 20 years, but have remained at about 10 percent. Under our system of graduated rates, an individual taxpayer pays proportionately more taxes as his income grows.

That is still true for individual taxpayers. However, a series of tax reductions has kept the overall ratio of income taxes to personal income from rising. Thus, in the aggregate, the level of individual income taxes compared to personal income has remained relatively constant although personal incomes have risen very substantially.

Fourth, we have enjoyed a steady growth in our gross national product and in the affluence of our citizens. That is partly attributable to the fact that we have as a nation made enormous and increasing investments in the business segment of our economy, which have enabled us constantly to increase our productivity and remain competitive with other nations. The tax system plays a key role in that process of increased productivity, because taxes take away, or drive away, dollars which business might otherwise use to make the capital investments which produce increased prosperity and more jobs. Table 2 indicates the extent to which the business sector of our economy contributes to our gross national product and to our federal tax revenues. You will see from the table that business produces 77 percent of the GNP and generates 87 percent of the personal and corporate income taxes. In terms of our national economic health, it is critical that United States business remain healthy and that it increase its productivity. Private investment is one of the most important factors in making this enormous economy continue to grow.

It has in recent months become painfully obvious to everyone that we cannot rest on our past successes and that other countries have become much more competitive. Table 3 shows the amount of new investment which has been occurring in our country compared with the other industrial nations for which data are available. You will see, for example, that Japan--a country roughly the same size as the State of California--has been making new investment at a rate which is roughly two-thirds of the total for our entire nation. That is not necessarily cause for alarm, as Japan has a long way to go before it reaches our level of economic well-being. Nonetheless, looking into the future it is cause for concern that our effort is relatively so small compared to that of other industrial countries, and that as a percentage of GNP, our investment has been cut nearly in half, while that of our competitors has climbed sharply.

We have for a number of years recognized the national need to encourage new investment and greater productivity in order that all of our citizens might live better. The Kennedy and Johnson Administrations took steps to encourage investment by lowering the tax on corporations by 4 percentage points, by liberalizing depreciation rules, and by instituting the investment credit. All three of those changes were designed to increase the resources which business might use to expand and modernize and the incentive to do so. All three of these changes are part of our law today. Congress two years ago added a fourth change, a further liberalization in the depreciation rules. We believe that all four of these provisions make an important contribution to our economic well-being and to our revenues and that they should be retained. And in designing our tax package generally, we have tried to be sure that we do not unduly impair the ability of American industry to modernize and expand, for that modernization and expansion is vital to all our citizens.

Let me now turn to specific proposals.

Viewed as a package, our recommendations are essentially neutral in their budgetary effect and can be accomplished within the spending limitations of the Administration's budget for fiscal 1974. By holding down federal taxes and spending, and by stimulating productivity, the overall tax program will be a major weapon in winning the fight against inflation. The recommended tax relief and the new tax incentive provision will be paid for by the tax reform measures, which will collect a reasonable amount of income taxes from those citizens who are not now paying a fair share of the tax burden. A general tax increase is both unnecessary and undesirable.

<u>Proposals with respect to high income taxpayers who pay little or no tax.</u>

Much attention has been paid to the fact that some 72 citizens with high adjusted gross incomes pay no federal income tax. These people are neither tax dodgers nor tax cheats. Many pay no taxes because they make large donations to worthy causes, donations which existing law encourages by allowing a deduction. The great majority of persons with high incomes are paying tax and lots of it. In 1971 persons with adjusted gross incomes above $200,000 paid an average federal individual income tax of $182,000. Further, the wealthy as a group are paying more tax now than they were before the enactment of the Tax Reform Act of 1969. Nonetheless, taxpayers who have large income and pay little or no tax do exist in limited, but significant, numbers. In our continuing effort to produce sound tax reform, we have two proposals which deal with investment devices which are popularly referred to as tax shelters.

A common characteristic of a tax shelter investment is that it produces deductions and exclusions--particularly in the early years--which may be used against other income of the taxpayer. The result may be an outright reduction in taxes, an indefinite deferral of tax, or a conversion of ordinary income into capital gain.

Sometimes these results are unintended and are caused by the exploitation of tax rules which are sound in normal situations. Other times the results flow from rules deliberately designed to provide tax incentives for particular activities. Where the rules were intended as incentives, the fact that taxpayers use them to erase their entire taxable incomes means that those incentives have been successful. But such a result has a dangerously demoralizing effect on the operation of our revenue system, as it appears to most taxpayers simply to provide a means by which the wealthy avoid the payment of income taxes.

In addition, the widespread "tax shelter" market introduces significant distortions into our economy. Preoccupation with tax manipulations--particularly tax deductible "losses"--too often obscures the economic realities and can have the effect of discouraging profitable and efficient enterprise. Inefficient tax incentives available in the form of "artificial losses" to investors in preferred types of properties may benefit only the promoters of tax shelter schemes without contributing effectively to the social objectives of the incentives.

For example, there are those who invest in farms not for the purpose of efficiently producing food and fibre at a profit, but to produce an artificial tax "loss" which will shelter their nonfarm income from tax. These investors compete with full-time farmers to bid up the prices of the necessary land, livestock, and equipment. Somewhat perversely, over-reaction to existing tax laws may lead "hobby" farmers to be lavish and wasteful in their expenses. The result can be a competitive increase in the operating costs of all farmers.

Our proposals will eliminate these situations. They will increase the fairness of the tax system and remove the spectacle of high income taxpayers who pay no tax by parlaying tax deductions and exclusions. Our proposals will reverse the economic inefficiencies inherent in tax shelters and shift the emphasis away from investments which produce tax losses and will put the premium where it belongs--on sound economic investments and efficient operations which produce income.

Our proposals limit the use of some provisions that were intended as incentives. Where that is the case, the proposals should not be interpreted as necessarily foreclosing the possibility of providing other incentives or subsidies.

We do mean, however, to foreclose the use of the tax system to provide incentives to a degree that impairs the confidence of the ordinary citizen in the fairness of the system.

In order to achieve this result we propose that the existing minimum tax be repealed for individuals and that it be replaced by two new provisions applicable to individuals. They are a Minimum Taxable Income provision and a Limitation on Artificial Accounting Losses. In general, the Minimum Taxable Income provision will deal with those tax items that are outright exclusions from income, and the Limitation on Artificial Accounting Losses will deal with those tax rules that provide deferrals. Both provisions are simple in principle and we have tried to design them as simply as possible.

Minimum Taxable Income. The Minimum Taxable Income proposal would prevent the combination of exclusions and itemized deductions from offsetting more than one-half of a taxpayer's income, and every individual will be required to pay tax on at least the balance. The exclusions involved are the exclusions (1) for one-half of long-term capital

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gains, (2) for the bargain element of a stock option at the time of exercise, (3) for percentage depletion in excess of adjusted basis, and (4) for income earned abroad and presently excluded under section 911 of the Code. A taxpayer's minimum taxable income will be computed by adding these exclusions to his adjusted gross income. From that sum he will subtract his personal exemptions plus $10,000, which will make the provision inapplicable to low and middle income individuals. The resulting amount is the taxpayer's minimum taxable income base, and it is divided by two to produce his minimum taxable income, which is the minimum amount on which he must pay tax at regular rates.

The operation of this provision is explained by an example in Table 4.

Limitation on Artificial Accounting Losses. The Limitation on Artificial Accounting Losses deals with deductions that are clearly associated with the production of income in some future year. Existing tax accounting rules permit a number of such deductions, thus mismatching them with the income to which they relate and producing accounting losses that are artificial. The amounts of these deductions are often greatly magnified by the use of borrowed funds. Examples of such deductions include prepaid feed in the case of livestock feeding syndications, intangible drilling expenses in the case of mineral exploration, and taxes and interest during construction, and accelerated depreciation in excess of straight-line depreciation in the case of buildings.

We do not propose that any of these deductions be disallowed. Nor do we propose that they be capitalized. We propose only that if they create a loss from the activity to which they relate, that loss may not be used to offset or shelter other unrelated income of the taxpayer. The loss must be suspended until the property commences to produce income, at which time the loss may be used against such income as rapidly as it is generated.

You will observe that this still permits a taxpayer to shelter income from the investment itself. Thus, there remains a substantial area in which incentives may operate. Taxpayers may still purchase investments on which the income can be tax free for substantial periods, but the tax system will no longer pay them to buy such investments. They must buy with after tax dollars and will not get to use the deductions from the investment until it starts to produce income. They will be using their own money, rather than tax dollars, to buy the investment.

In general, the Limitation on Artificial Accounting Losses will not affect those taxpayers who are regularly and profitably engaged in the business activity involved. In the case of mineral exploration and housing--where existing law implements intended incentives--the proposal is liberal in defining the related activity against which such losses may be used. Thus, in the case of such losses associated with mineral exploration, they may be used against the income from all oil and gas production wherever situated, and in the case of such losses associated with housing, they may be used against the income from all housing wherever situated. The provision should have no effect in the case of ordinary farmers for the reasons outlined in the technical explanation accompanying this statement.

Further, investments presently existing or for which commitments have been made will be unaffected, since they have been made in reliance on existing law. Housing projects which will receive certain kinds of governmental subsidy assistance will be similarly unaffected even though investment commitments are not yet firm. This preserves the status quo with respect to federal housing programs that depend on such subsidies. Approval of new projects has been suspended by HUD and the Department of Agriculture pending the re-examination of existing programs, on which the President is to make policy recommendations to the Congress in early September.

Other new projects commenced after April 30, 1973, would be subject to the Limitation on Artificial Accounting Losses.

The Minimum Taxable Income provision and the Limitation on Artificial Losses will apply to individuals and will be inapplicable to corporations other than Subchapter S corporations. Corporations do not have the graduated rates which provide the impetus for tax shelters and no major problem exists in the corporate sector. The rules proposed are tailored for individuals and would be administratively unworkable for corporations with varied activities. Corporations will continue to be subject to the present minimum tax.

In addition to providing a more equitable income tax, the rule will help to eliminate from our economy the distortions inherent in the widespread "tax shelter" market. Tax deductions now prematurely available in the form of "losses" will hereafter be available only to offset income produced by the same or related investment. Where the investor will be risking his own money rather than simply the government's tax dollars, he will be more careful to investigate the soundness of the investment. This provides the right kind of tax incentive by rewarding efficiency and success.

The Minimum Taxable Income provision and the Limitation on Artificial Accounting Losses would in combination raise about $1 billion in revenues, for a net revenue gain of $800 million after taking into account the revenue loss of about $200 million arising out of the repeal of the present minimum tax on individuals.

Proposals with respect to simplification of the tax laws.

We believe there is overwhelming need for major simplification of our tax system and propose to provide it. The burgeoning complexity of the existing system seriously threatens its effective operation.

The genius of our income tax system is voluntary compliance. The willingness of the American public to comply with tax rules is essential. No amount of policing will achieve compliance if that willingness should disappear. When the law is too complicated, many taxpayers cannot comply. Others give up trying. The resulting noncompliance by significant segments of the population infects the entire system and destroys acceptance of it by the public as a whole.

Many tax professionals are concerned that we may be at a critical point. For example, a recent report on tax simplification by a blue ribbon committee of the New York State Bar Association states:

> "This committee is unanimously of the view that the present course of development of the tax law,

> if not reversed, may well result in a breakdown of the self-assessment system. Indeed, some members believe that the breakdown has to some extent occurred."

We share that concern.

No magic road to simplification exists. I have no simple formula to offer you to unwind all of the complexity encrusting the tax law.

On the contrary, we will get simplification only if we work hard and long at it. Hundreds of items must be considered individually. Most of those items were enacted in the belief that they produced greater equity. Some have outlived their usefulness. Others need to be pared down or integrated into broader and simpler provisions.

<u>Working at simplifying the law</u>. I urge that we roll up our sleeves and commence this long-range project. The Administration has several specific suggestions to begin this process, but we must not delude ourselves. We will not have achieved in a single bill the simplification we need.

Thus a most important recommendation on the subject of complexity relates to procedures. We recommend that as the Administration and your Committee work together on new legislation in the coming months, we set up procedures under which we can carry forward a systematic program of simplification next year, and the following year, and the year after that. It will be hard work. It will be undramatic. But it will be of the greatest long run importance.

Efforts to simplify specific provisions of the law are already under way. Several months ago the tax staff at the Treasury began work in cooperation with the staff of the Joint Committee on Internal Revenue Taxation to draft for your consideration suggested revisions of such provisions as those relating to:

-- the deduction for moving expenses;

-- the exclusion of sick pay and disability compensation;

-- the retirement income credit for the elderly;

-- the provisions for taxing annuities; and

-- the accumulation trust rules.

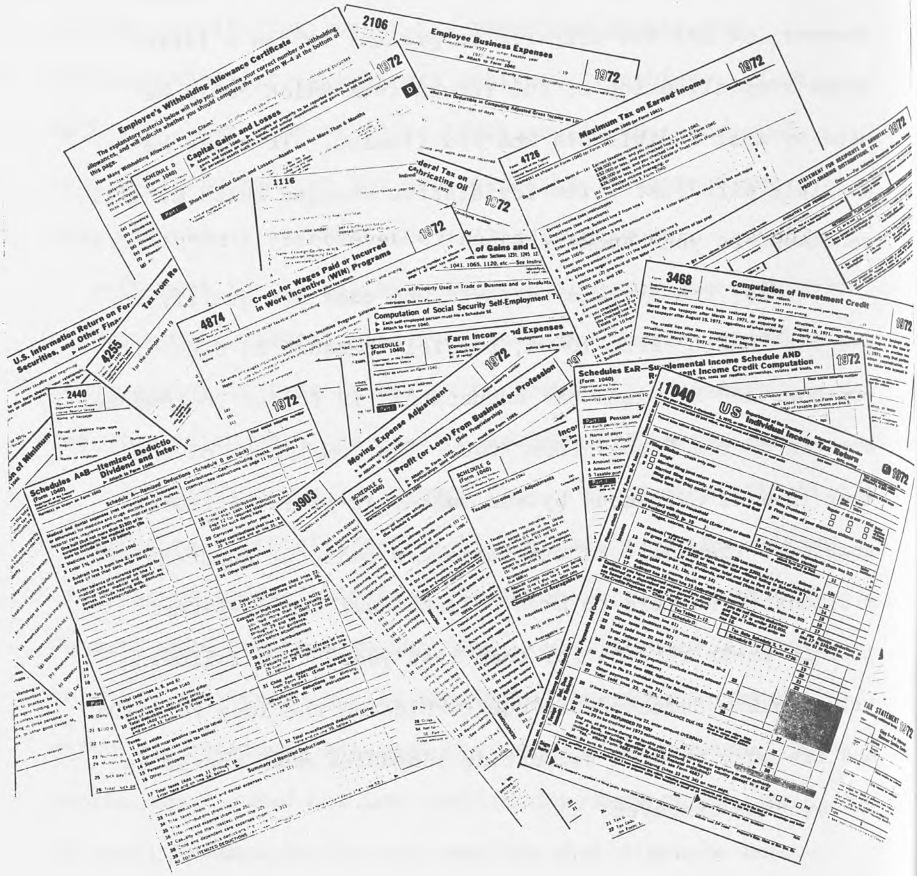
The aim was to strip away unnecessary complication and to make them readily understandable and easy of application without sacrificing any of the essential equity and benefits these provisions are designed to achieve. I will tell you about some of these today and in the course of your deliberations in the coming months, we expect to make additional alternatives available to you.

In most instances, simplification can be best achieved by being more liberal with taxpayers and it will undoubtedly be necessary in some instances to compromise the desire for simplicity with the need to avoid major revenue loss.

Simplifying the tax return form. Major simplification requires major simplification of the tax forms, to relieve millions of individuals from the annual agony of April 15. We must make progress on that now. I am pleased to present to this Committee a vastly simplified tax return concept to which the President attaches the greatest importance. Some months ago I asked our tax staff at Treasury and at the Internal Revenue Service to consider what might be done both legislatively and administratively to simplify the preparation of tax returns for the 75 million individual citizens who file them. That work is still continuing. However, we are now prepared to present to you a first-stage simplification of the return form which could be used by most individuals who now itemize. It would be possible with just a few legislative changes which we will recommend to your Committee.

Today, the average taxpayer who does not qualify to use the "short" Form 1040A, possibly because he owns his own home and itemizes his deductions, is forced to compute his tax on the "long" Form 1040. The complexity of the long form is evidenced by the fact that it is estimated that more than half of our taxpayers paid out hundreds of millions of dollars to have professional tax preparers fill in their returns for them last year. The following illustration demonstrates how forbidding the long Form 1040 and its more than 40 supporting schedules must appear to the average taxpayer.

The Problem



Employee's Withholding Allowance Certificate
2106
Employee Business Expenses
1972
Maximum Tax on Earned Income
4726
Capital Gains and Losses
SCHEDULE D (Form 1040)
Credit for Wages Paid or Incurred in Work Incentive (WIN) Programs
4874
Computation of Social Security Self-Employment Tax
3468
Computation of Investment Credit
U.S. Information Return on For- Securities, and Other Fina-
4255
2440
Farm Income and Expenses
SCHEDULE F (Form 1040)
Moving Expense Adjustment
3903
Profit (or Loss) From Business or Profession (Sole Proprietorship)
SCHEDULE C (Form 1040)
SCHEDULE G (Form 1040)
Schedules A&B—Itemized Deductions AND Dividend and Interest
Schedules E&R—Supplemental Income Schedule AND Retirement Income Credit Computation
1040
U.S. Individual Income Tax Return
STATEMENT FOR RECIPIENTS OF ANNUITIES, ETC.

The long form is necessarily complicated. It was designed to cover every conceivable tax transaction which could apply to an individual during the taxable year and to accommodate a tax law which is a collection of complexities and record-keeping requirements that frustrates the best efforts of forms designers.

The approach we have taken to developing a simpler tax return was novel in that we worked in reverse--we tried to design a tax return that could be comprehended by the average taxpayer and then worked back to recommend changes in the law and regulations to accommodate the concepts. This is a new approach to tax simplification and we call it "reverse legislation."

The first step was to define the "average taxpayer." Using statistical data from past years' returns, we found that the average taxpayer derives income from wages, interest and dividends, and capital gains from the sale of stock; that the average elderly taxpayer often derives income from rental property; and that the average taxpayer who itemizes deductions on his tax return does so to take advantage of deductions for interest and taxes attributable to home ownership.

Having defined the average taxpayer in terms of his income and spending characteristics, we focused on the problems he encounters in computing his tax liability on the long Form 1040 and designed an intermediate system of tax reporting that will suffice for the more than 20 million taxpayers with simple family and financial transactions. We have labeled it "Form 1040S." It needs some further refinement and some new legislation before it can be implemented. But it is a major step in the right direction.

A prime objective was to achieve a simple format and to reduce record-keeping.

The proposal directly attacks many of the problem areas:

(1) the child care allowance;

(2) the retirement income credit;

(3) the medical and casualty deductions;

(4) the deduction of union dues, professional society dues, work clothes, etc.;

(5) the required use of various schedules designed to accommodate complex transactions such as capital gains and losses, etc.;

(6) the dividend exclusion;

(7) the multiple tax tables; and

(8) the sick pay exclusion.

Probably the most significant change proposed relates to the itemization of deductions on the return. The average taxpayer who itemizes his deductions attempts to fill in all of the deduction categories, typically without adequate records, and the result is often an audit problem arising either from a mistaken understanding of the law or from exaggerating items. The proposed solution is to allow itemization only of those items easily verified and to replace the more difficult items with a fixed dollar allowance to make the average taxpayer come out about where he would have if he had kept the proper records and reported his deductions correctly. We recognize that no fixed dollar allowance will do perfect justice. Some taxpayers will come out slightly ahead and some behind, but the achievement of simplification for millions of taxpayers is of overriding importance.

Form 1040S will accommodate two distinct groups of taxpayers. The first group consists of average, middle-income taxpayers, who, for purposes of illustration, may be called the Joneses. Mr. and Mrs. Jones both work and have a combined yearly income of $18,000 from wages. Their only other income of $300 comes from interest they have earned on their savings account. During the taxable year, the Joneses incur deductible expenses of $800 for medical care, $309 for charitable contributions, $1,000 for mortgage interest on their home, $1,500 for taxes, $2,400 for child care, and an additional $100 for miscellaneous expenses. Although there is nothing remarkable about these expenses for an average married couple with two children, the following illustration demonstrates the number of forms and the number of transpositions between forms that the Joneses must navigate in order to compute their tax liability for the year on the long Form 1040.

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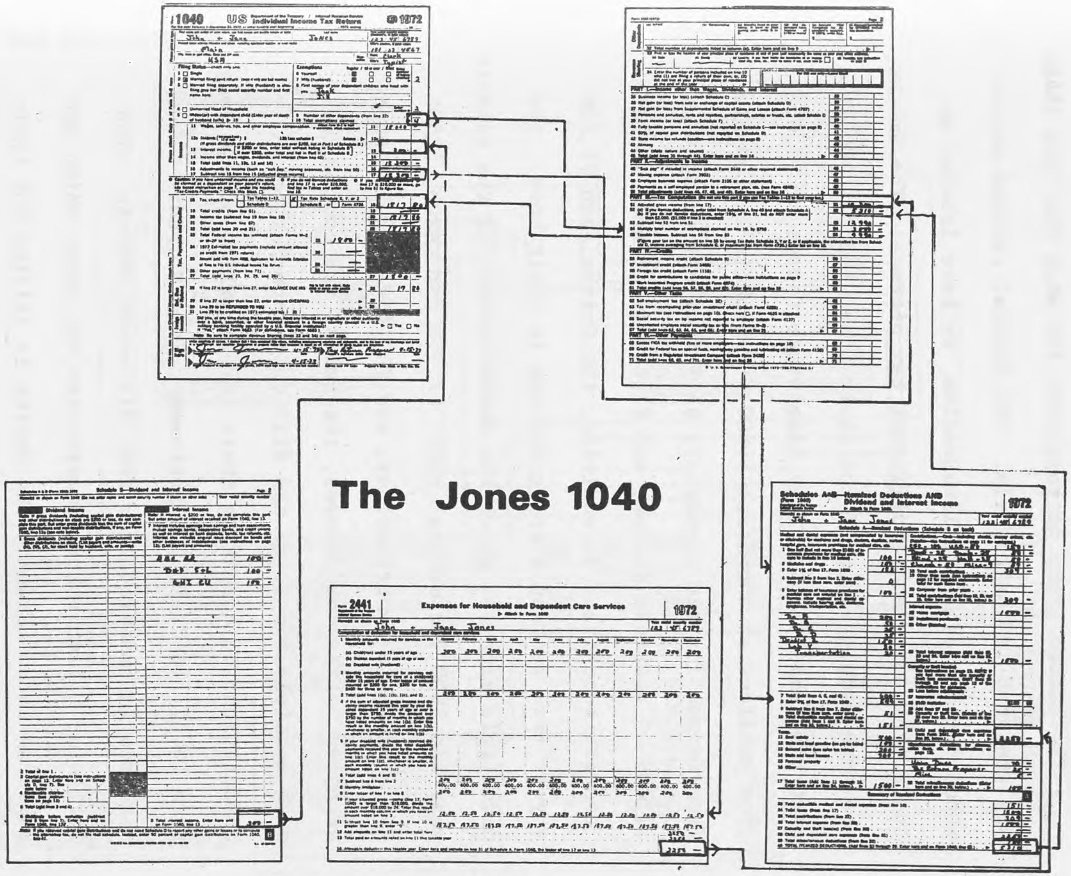
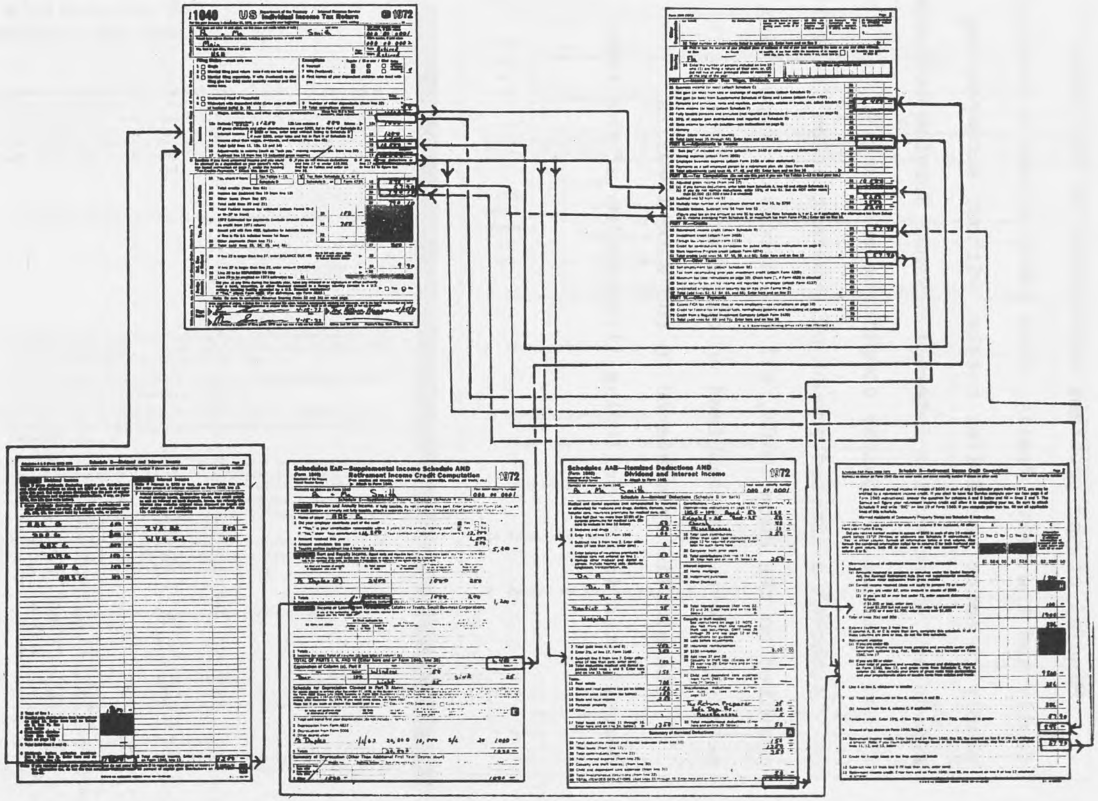
The Jones 1040



The second group of taxpayers for whom the Form 1040S was designed is the elderly. The typical retired couple whom, for purposes of illustration, we have labeled as the Smiths, presents a different tax picture. The Smiths, who have completely paid for their home, earn $1,400 from part-time employment. They have other income of $6,000 from pensions or annuities ($800 of which is excludable from income for tax purposes), $1,200 of dividend income, $1,200 of interest income, and $1,800 from their social security benefits. In addition, the Smiths earn $1,200 a year from renting a spare bedroom in their home. The deductible expenses which the Smiths incur for the taxable year are $500 for medical care, $1,350 for taxes, $250 for charitable contributions, and $50 for miscellaneous expenses. Like the Joneses, the Smiths are confronted with multiple tax forms and difficult mathematical computations in computing their tax liability on the long Form 1040. To claim the retirement income credit alone requires information from four different sources. The following illustration demonstrates the steps which are required to be taken by the Smiths in filling out their tax return:

The Smiths 1040



Mindful of the problems encountered by the Jones family and the Smith family, Form 1040S allows a taxpayer simply to enter the dollar totals, without accompanying schedules, wherever the Internal Revenue Service believes it can continue to monitor compliance adequately.

Although a limited amount of substantiation is still required on the Form 1040S, all the necessary supporting schedules have been combined on one sheet.

The simplicity achieved in the Form 1040S is demonstrated in the following illustration of the form:

For More Information on Any of the Items Below, See Instructions on Page Indicated

Name, Address and Social Security Number: Place the label from the front of your tax package on the Form. Please correct name, address or social security number on the label if necessary. If you do not have a label, print your name and address and social security number in the space provided. If you are married, give social security numbers of both husband and wife. List occupation of husband and wife.

Line 1, Filing Status: Check correct box—one only. (See Instructions, page .....)

Line 2: Enter the total of all wages, salaries, tips and other employee earnings. (See Instructions, page .....) Attach Form(s) W-2 to front of return. If you do not have Form(s) W-2, see Instructions, page .....

Line 3a: Enter total taxable interest and dividend income (including dividends from mutual funds). (See Instructions, page .....)

Line 3b: Enter here the gross amount of all interest and dividends as shown on Forms 1099 or 1087, if different from amount reported on line 3a. (See Instruction, page .....)

Line 4: Enter net capital gain or loss from the sale or exchange of stocks or other securities. Fill in Part E of 1040-S General Schedule and attach. If you have only mutual fund or real estate investment trust capital gains distributions, you need not fill in the General Schedule but simply enter 50% of gains amount on line 4.(See Instructions, page_ _)

Line 5 Enter at 5a your gross receipts and your depreciation and other expenses at 5b. Enter your net rental income (or loss) at 5c. (See Instructions, page _ _)

Line 6 Enter taxable portion of pensions and annuities received. (See Instructions, page . .)

Line 7: Enter total of all other income reportable on this form, such as prizes, State and local tax refunds if you itemized last year, alimony, etc. List sources and amounts of this income in part A of 1040-S General Schedule and attach. (See Instructions, page .....)

Add Lines 2 through 7 and enter total income.

Note opportunity for Presidential Campaign Fund Check Off ▶

Department of the Treasury
Form **1040-S**
Internal Revenue Service

U.S. Individual Income Tax Return

1973

Please print or type

First name and initial (If joint return, use first names and middle initials of both) | Last name

Present home address (Number and street, including apartment number, or rural route)

City, town or post office, State and ZIP code | Occupation: Yours ▶ | Wife ▶

Your social security number (Husband's, if joint return) ▶ | Wife's number if joint return ▶

1 Filing Status (Check only one)

- a Single
- b Married filing joint return (even if only one had income)
- c Married filing separately. If wife (husband) is also filing give her (his) social security number and first name here ▶ ....
- d Unmarried Head of Household
- e Widow(er) with dependent child (Enter year of death of husband (wife) ▶ 19)

2 Wages, salary, etc.	2	
3a Interest and dividend income	3a	
b (Gross amount received, if different than line 3a) $..........)		
4 Net capital gain (or loss)	4	
5a Gross rents $_ _ _ _ _ _ 5b Less expenses $_ _ _ _ balance▶	5c	
6 Pensions and annuities (after exclusion)	6	
7 Other income	7	
Add lines 2 through 7. This is your total (adjusted gross) **income** ▶		

If you wish to earmark $1.00 of your taxes ($2.00 if a joint return) for the Presidential Election Campaign, Check here ☐ and attach Form 4875.

The left side of the form is a separate, adjoining page. It prints simple keys beside the relevant lines on the return--explaining what is required on a particular line of the return and furnishing a convenient reference to the more detailed instruction booklet. Larger print has been used in developing the form and clearer language has been used in the instructions.

The reverse side of the Form 1040S, as shown in the following illustration, is also equipped with a separate set of keys. The reverse side contains all the subtractions from income which must be made in arriving at taxable income, and eventually at tax liability. Unlike the Form 1040, the Form 1040S runs a continuous mathematical line from the first line of income to the last line of tax due.

Form 1040-S (1973) Page 2

8 Total income (from page 1) 8

9 Exemptions:

	Regular	65 or over	Blind	Enter number
a. Yourself	✓			
b Wife (Husband)				

10 Dependents living with you . . . .

11 Dependents not living with you . .

12 Total exemptions (add lines 9, 10 and 11) . . x $750 = ▶

Deductions (Select one—Standard or Itemized)

13 Standard Deduction . . . .

OR

14 Itemized deductions:

a. Charitable contributions (Part B, General Schedule) . . . .

b. State and local income taxes . . . .

c. Personal and real property taxes . .

d. Sales tax (from tables p. ....) . . .

e. Home mortgage interest . . . . .

f. Other interest expense . . . . .

g. Alimony . . . .

h. Child/disability care allowance (Part C, General Schedule) . . . .

i. **Miscellaneous deduction allowance (Enter $500; $250 if married, filing separately).**

15 Total itemized deductions (add lines a through i) . . . .

16 Total deductions and exemptions (line 12 plus line 13 or 15) 16

17 Taxable income (subtract line 16 from line 8) 17

18 Tax 18

19 Credits and payments against tax.

a. Age credit (Part D, General Schedule) . . .

b. Credit for contributions to candidates for public office . . . .

c. Total, but not more than amount on line 18 . . . .

d. Total income tax withheld . . . .

e. 1973 estimated tax payments . . . .

f. Other payments . . . .

20 Total tax payments and credits (add lines 19c through 19f) 20

21 If line 20 is larger than line 18 enter difference as REFUND 21

22 If line 20 is smaller than line 18, enter difference as BALANCE DUE 22

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which he has any knowledge.

Sign here

▶ Your signature Date | ▶ Preparer's signature (other than taxpayer) Date

▶ Wife's (husband's) signature (if filing jointly, BOTH must sign even if only one had income) | ▶ Address (and ZIP code) Preparer's Employer Ident. or Social Security Number

Line 8: Enter here total income from page 1.

Line 9: We have checked the "Regular" box for you. You may also check the "65 or older" and "Blind" boxes for yourself if they apply. If you are filing a joint return, check the proper boxes for your wife (husband). Enter the number of boxes checked.

Lines 10 and 11: Enter the number of dependents living with you, and number of dependents not living with you on proper lines. (See Instructions, page_ _)

Line 12: Add number of exemptions claimed on Lines 9, 10, and 11. Multiply by $750 and put your answer on Line 12.

Line 13: If you select the **Standard deduction**, enter 15% of Line 8, or $1,300, whichever is larger, but **not more** than $2,000. If you are **Married, filing separately**, or can be claimed as a **dependent** on the return of someone else, see instructions, page

Line 14: If you choose to **itemize deductions**, you may deduct only those items listed on the form. Information about these items may be found in the Instructions pages listed below. Deductions for **Charitable contributions** and **Child/disability care** allowance must be explained on the General Schedule, which should then be attached.

14a:	Contributions	page ....
14b, c, d:	Taxes	page ....
14e, f:	Interest expense	page ....
14g:	Alimony	page ....
14h:	Child/disability care allowance	page ....

14i: Miscellaneous deduction allowance: Enter $500 ($250 if **Married, filing separately**). The miscellaneous deduction allowance takes the place of other itemized deductions formerly allowed. It should be claimed by everyone who itemizes deductions, but it is not allowable to those who use the standard deduction. (See Instructions, page _ _)

Line 16: Enter here total exemptions and deductions (line 12 plus line 13 or 15).

Line 18: If the amount on line 17 is $20,000 or less, find your tax in the **Tax Tables** on page .... If over $20,000, find your tax from the **Tax Rate Schedules X, Y, or Z**, on page .... Enter tax on line 18.

Line 19a: If you or your wife/husband are 65 or older, you may be entitled to the **Age Credit**. (See Instructions, page .....)

19b: Political Contributions (see Instructions, page ....).

19c: Enter here total of a and b, but not more than amount on line 18.

19d: Enter total **Federal income tax withheld**, as shown on Forms W-2 or W-2P. (See Instructions, page .....)

19e: Enter 1973 estimated tax payments, if any. Include any amount claimed as credit from 1972 return. (See Instructions, page .....)

19f: Enter total of other payments, if any, for excess FICA tax withheld and payments with application for extension of time to file. (See Instructions, page_ _)

Line 20: Enter here total of Line 19c, 19d, 19e, and 19f.

Line 21 or 22: Figure **Refund** or **Balance Due**.

Note: *Pay in full any amount due. Please make check or money order payable to Internal Revenue Service. (See Instructions, page .....)*

Please be Sure to Sign and Date Your Return.

For persons using the Form 1040S, lines 14a through 14i replace all the information previously required to be reported on the complex Schedule A, which has been eliminated.

Accompanying the Form 1040S is a general schedule. The front portion of the general schedule contains all the substantiation information required to be reported by the taxpayer. Part A of the general schedule requires the reporting of the source of other income listed on line 7 of the form. Part B requires a limited amount of substantiation for charitable contributions. Part C is the child/disability care computation and Part D is the age credit computation. Unless the Form 1040S user has gains resulting from the sale of stock or securities, he need never look beyond the front page of the general schedule as illustrated here.

SCHEDULE GS (Form 1040–S)
Department of the Treasury
Internal Revenue Service

General Schedule

▶ Attach to Form 1040–S

1973

Name(s) as shown on Form 1040–S	Your social security number

PART A.—Other Income

List Below Other Miscellaneous Taxable Income Reportable on this Form

Source	Amount		
1 Total. Enter here and on line 7 of Form 1040–S . . . . ▶		1	

PART B.—Contributions

List Total Contributions According to the Following Categories

2 Contributions for which you have **Cancelled Checks**		2	
3 Contributions for which you have **Receipts**		3	
4a **Other** contributions (list receiver and amount below):			
4b Total **other** contributions		4b	
5 Total contributions (add lines 2, 3 **and 4b**). Enter here and on line 14a of Form 1040–S . . . . ▶		5	

PART C.—Child/Disability Care Allowance

6 Enter actual care costs during year	6	
7 Limitations: Enter lesser of care-related income or $4,800 .	7	
8 If total income on line 8 of Form 1040-S is more than $22,800, enter the excess here. If $22,800 or less enter "0"	8	
9 Subtract line 8 from the smaller of line 6 or 7. This is your child/disability allowance. Enter here and on line 14h of Form 1040-S . . . . ▶	9	

PART D.—Age Credit

10 Check the correct box below, and put the proper dollar figure at right: ☐ Single and 65 or over . . . . $1,500 . . ☐ Married, filing jointly, only one taxpayer 65 or over . 1,500 . . ☐ Married, filing jointly, both taxpayers 65 or over . . 2,250 . . ☐ Married, filing separately, and 65 or over . . . . . 1,125 . .	10	
11 Enter the total amount received from your social security or railroad retirement pensions, if any	11	
12 Subtract line 11 from line 10 and enter result	12	
13 Multiply amount on line 12 by 15%. Enter here and on line 19a of Form 1040–S ▶	13	

Those taxpayers reporting capital gains or losses from the sale of stock or securities would be required to compute their gain or loss on the simplified schedule contained on the back of the general schedule. The capital gains schedule as shown in the following illustration is designed to lead the taxpayer through the complicated computations required to be made in arriving at the amount reportable on the tax return as a capital gain or loss.

PART E.—Capital Gains and Losses. (For Reporting Gain or Loss from the Sale of Stock or Other Securities Only)

I. Short-term Capital Gains and Losses—Assets Held Not More Than 6 Months

Name of Stock or Other Security (a)	Gross sales price (b)	Cost or other basis, as adjusted and expense of sale (c)	Gain (or loss) (b less c) (d)

14 Combine gains and losses and enter net short-term gain (or loss) . . . .

II. Long-term Capital Gains and Losses—Assets Held More Than 6 Months

Name of Stock or Other Security (a)	Gross sales price (b)	Cost or other basis, as adjusted and expense of sale (c)	Gain (or loss) (b less c) (d)
Capital gain distributions from mutual funds			

15 Combine gains and losses and enter net long-term gain (or loss) . . . .

III. Summary of Sections I and II.

16 Combine the total net gains and losses from sections I and II and enter the net gain or loss here
If the total on line 16 shows a net gain, complete section IV only.
If the total on line 16 shows a net loss, complete section V only.

IV. Amount Reportable as a Capital Gain

17a Net short-term gain from line 14 (If zero or a loss enter zero) . . . .

b **Subtract:** Net long-term loss from line 15 (If zero or a gain enter zero) .

c **Total** . . . . × 100% =

d **Plus:** Net long-term gain from line 15 (If zero or a loss enter zero) . .

e **Subtract:** Net short-term loss from line 14 (If zero or a gain enter zero) .

f **Total** . . . . × 50% =

18 Combine totals from above. Amount reportable on line 4 of Form 1040–S as a capital gain . .

V. Amount Reportable as a Capital Loss

19a Net short-term loss from line 14 (If zero or a gain enter zero) . . . .

b **Subtract:** Net long-term gain from line 15 (If zero or a loss enter zero) .

c **Total** . . . . x 100% =

d **Plus:** Net long-term loss from line 15 (If zero or a gain enter zero) . . .

e **Subtract:** Net short-term gain from line 14 (If zero or a loss enter zero) .

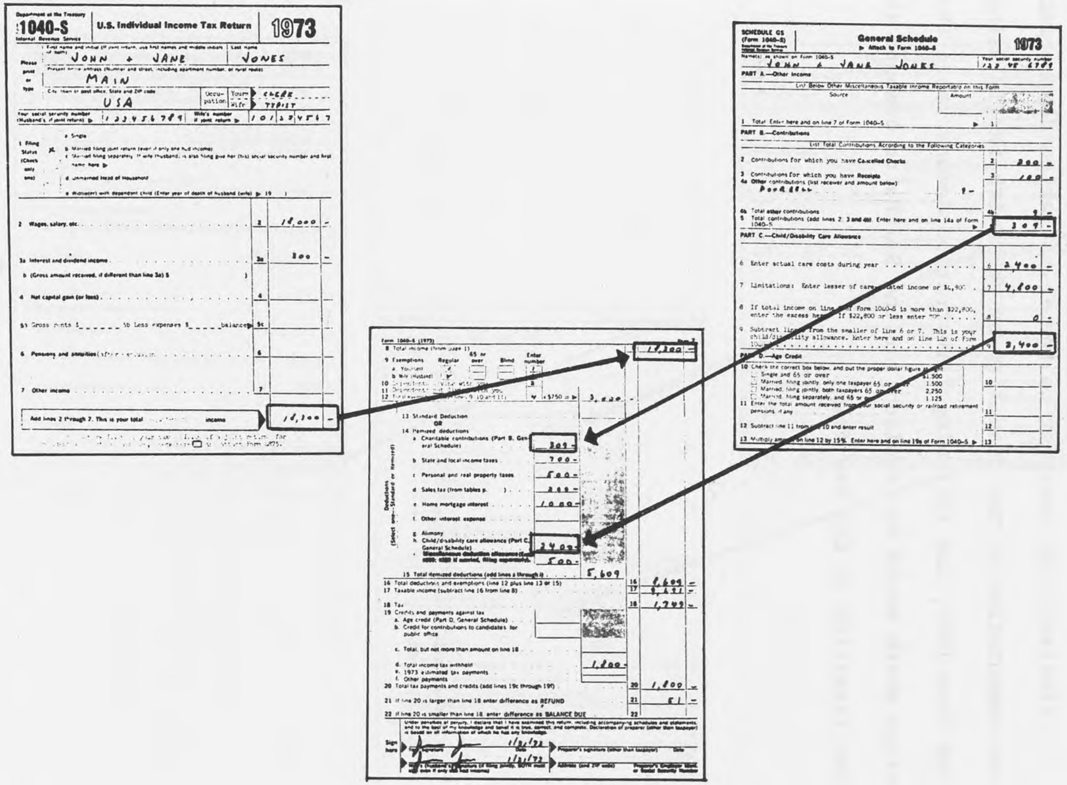
f **Total** . . . . × 50% =

g Combine totals from above . . . .

20 Enter here and on line 4 of Form 1040–S, as the amount reportable as a capital loss, the Lesser of:
a The total shown on the above line . . . .
b $1,000 ($500 if married and filing a separate return) . . . .
c Taxable income, as adjusted (see Instruction —) . . . .

The Form 1040S is designed to allow the average taxpayer to compute his tax liability without the necessity of seeking professional help. In comparison to the illustration demonstrating the steps which were required to be taken by the Jones family in using the long Form 1040, the following illustration demonstrates the steps which will be required by the same family in computing their tax liability on the Form 1040S.

The Jones 1040 S



Department of the Treasury
1040-S U.S. Individual Income Tax Return 1973
Internal Revenue Service

JOHN + JANE JONES
MAIN
USA
Occupation: Yours CLERK; Wife's TYPIST
Your social security number 123456789
Wife's number 101234567

1 Filing Status (Check only one)
a Single
b Married filing joint return (even if only one had income)
c Married filing separately
d Unmarried Head of Household
e Widow(er) with dependent child

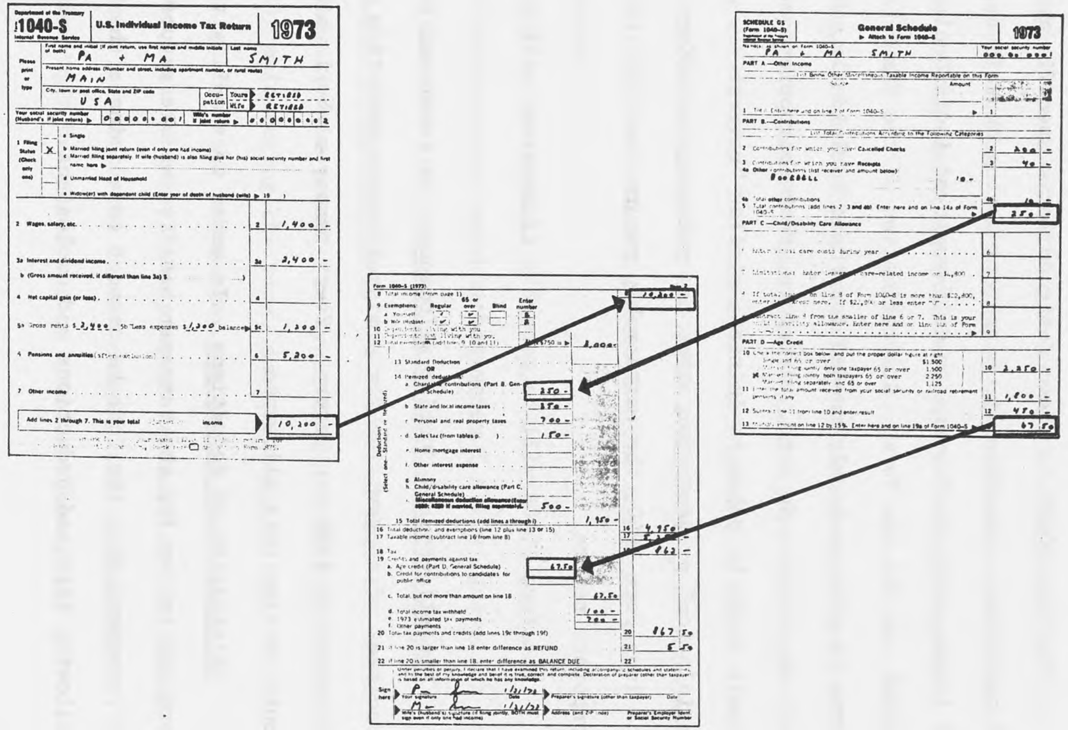
2 Wages, salary, etc. 18,000 –
3a Interest and dividend income 300 –
b (Gross amount received, if different than line 3a) $
4 Net capital gain (or loss)
5a Gross rents $ 5b Less expenses $ balance 5c
6 Pensions and annuities
7 Other income
8 Add lines 2 through 7. This is your total income 18,300 –

Form 1040-S (1973)
8 Total income (from page 1) 18,300 –
9 Exemptions: Regular, 65 or over, Blind, Enter number
a Yourself
b Wife (husband)
10 Dependents
11 Dependents not living with you
12 Total exemptions × $750 = 3,000 –
13 Standard Deduction
OR
14 Itemized deductions
a Charitable contributions (Part B, General Schedule) 309 –
b State and local income taxes 700 –
c Personal and real property taxes 500 –
d Sales tax (from tables p.) 200 –
e Home mortgage interest 1,000 –
f. Other interest expense
g Alimony
h Child/disability care allowance (Part C, General Schedule) 2,400 –
i Miscellaneous deduction allowance 500 –
15 Total itemized deductions (add lines a through i) 5,609
16 Total deductions and exemptions (line 12 plus line 13 or 15) 8,609 –
17 Taxable income (subtract line 16 from line 8) 9,691 –
18 Tax 1,749 –
19 Credits and payments against tax
a. Age credit (Part D, General Schedule)
b. Credit for contributions to candidates for public office
c. Total, but not more than amount on line 18
d. Total income tax withheld 1,800 –
e. 1973 estimated tax payments
f. Other payments
20 Total tax payments and credits (add lines 19c through 19f) 1,800 –
21 If line 20 is larger than line 18 enter difference as REFUND 51 –
22 If line 20 is smaller than line 18, enter difference as BALANCE DUE
Sign here 1/31/73 1/31/73

SCHEDULE GS (Form 1040-S) General Schedule 1973
Attach to Form 1040-S
JOHN & JANE JONES 123 45 6789
PART A.—Other Income
1 Total. Enter here and on line 7 of Form 1040-S
PART B.—Contributions
2 Contributions for which you have Cancelled Checks 200 –
3 Contributions for which you have Receipts 100 –
4a Other contributions (list receiver and amount below) POOR BELL 9 –
4b Total other contributions 9 –
5 Total contributions (add lines 2, 3 and 4b). Enter here and on line 14a of Form 1040-S 309 –
PART C.—Child/Disability Care Allowance
6 Enter actual care costs during year 2,400 –
7 Limitations: Enter lesser of care-related income or $4,800 4,800 –
8 If total income on line 8 of Form 1040-S is more than $22,000, enter the excess here. If $22,000 or less enter "0" 0 –
9 Subtract line 8 from the smaller of line 6 or 7. This is your child/disability allowance. Enter here and on line 14h of Form 1040-S 2,400 –
PART D.—Age Credit
10 Check the correct box below, and put the proper dollar figure at right
Single and 65 or over $1,500
Married, filing jointly, only one taxpayer 65 or over 1,500
Married, filing jointly, both taxpayers 65 or over 2,250
Married, filing separately, and 65 or over 1,125
11 Enter the total amount received from your social security or railroad retirement pensions, if any
12 Subtract line 11 from line 10 and enter result
13 Multiply amount on line 12 by 15%. Enter here and on line 19a of Form 1040-S

Similarly, in contrast to the illustration demonstrating the computation of tax liability by the Smith family using the Form 1040, the following illustration demonstrates the steps which would be required for the Smiths to compute their tax liability on the new form.

The Smiths 1040S



Form 1040-S, U.S. Individual Income Tax Return, 1973

First name and initial	PA + MA
Last name	SMITH
Present home address	MAIN
City, town or post office, State and ZIP code	USA
Occupation — Yours	RETIRED
Occupation — Wife's	RETIRED
Your social security number	000-00-0001
Wife's number	000-00-0002
1 Filing Status	X b Married filing joint return
2 Wages, salary, etc.	1,400 -
3a Interest and dividend income	2,400 -
4 Net capital gain (or loss)	
5a Gross rents $2,400; 5b Less expenses $1,200; balance	1,200 -
6 Pensions and annuities	5,200 -
7 Other income	
Add lines 2 through 7. This is your total income	10,200 -

Form 1040-S (1973) Page 2

8 Total income (from page 1)	10,200 -
12 Total exemptions × $750	3,000 -
14a Charitable contributions (Part B, General Schedule)	250 -
b State and local income taxes	350 -
c Personal and real property taxes	700 -
d Sales tax	150 -
Miscellaneous deduction allowance	500 -
15 Total itemized deductions (add lines a through i)	1,950 -
16 Total deductions and exemptions	4,950 -
18 Tax	862 -
19a Age credit (Part D, General Schedule)	67.50
c Total, but not more than amount on line 18	67.50
d Total income tax withheld	100 -
e 1973 estimated tax payments	700 -
20 Total tax payments and credits	867 50
21 If line 20 is larger than line 18 enter difference as REFUND	5 50
22 If line 20 is smaller than line 18, enter difference as BALANCE DUE	

Schedule GS (Form 1040-S), General Schedule, 1973

Name	PA + MA SMITH
Your social security number	000-00-0001
PART B — Contributions	
2 Contributions for which you have Cancelled Checks	200 -
3 Contributions for which you have Receipts	40 -
4a Other contributions: BOOKBELL	10 -
4b Total other contributions	10 -
5 Total contributions (add lines 2, 3 and 4b). Enter here and on line 14a of Form 1040-S	250 -
PART C — Child/Disability Care Allowance	
PART D — Age Credit	
10 Married filing jointly, both taxpayers 65 or over (X)	2,250 -
11 Enter the total amount received from your social security or railroad retirement pensions, if any	1,800 -
12 Subtract line 11 from line 10 and enter result	450 -
13 Multiply amount on line 12 by 15%. Enter here and on line 19a of Form 1040-S	67 50

The Form 1040S has been designed for a specific group of taxpayers. Accordingly, taxpayers having certain types of income, such as farmers or self-employed individuals, cannot use the new form. Simplification of the tax forms is also seriously needed for these individuals, as well as others. We urge, therefore, that appropriate and timely steps be taken to initiate similar "reverse legislation" projects for other tax returns, including the long Form 1040, the partnership return, and the corporate return.

The Form 1040S will be possible if Congress will do the following, which I recommend:

Miscellaneous deduction allowance. We recommend the enactment of a provision for a miscellaneous deduction allowance of $500 per return. Every taxpayer who itemizes would receive this allowance.

Elimination of deductions. In order to simplify the form and to pay for the taxpayer benefits we are proposing, we recommend that the Code be amended to eliminate the following itemized deductions and exclusions.

First, no itemized deduction would be allowed for the first $200 of those deductions which are now collected on the tax return under the schedule titled "miscellaneous deductions."

Second, medical and casualty deductions would be combined and an itemized deduction would be permitted only to the extent that the combined total exceeds a floor equal to 5 percent of the taxpayer's adjusted gross income.

Third, the dividends received deduction would be eliminated.

Fourth, the deduction for gasoline tax and other miscellaneous taxes would be eliminated.

Fifth, the sick pay exclusion would be eliminated.

A child care deduction. We recommend that the child care deduction be amended to apply to all such expenses actually paid during the year, subject only to the limitation that the amount may not exceed the lesser of $4,800 a year (which is the present maximum) or the amount of earned income of the lesser compensated spouse. The deduction will be phased out on a dollar-for-dollar

501-639 O - 73 - 4

basis for incomes in excess of $22,800. The expected revenue loss is less than $20 million.

Simplified tables. Our third specific recommendation is the enactment of a Code provision which would permit us to eliminate the present tax tables which are based on adjusted gross income and to replace them with tables based upon taxable income. That would permit the Internal Revenue Service to replace five pages of complicated tables in the instruction book with a single table. This would be a purely mechanical change and would have no effect on anyone's tax liability nor upon the revenues. It would require taxpayers to perform a little more simple arithmetic than they now do, but it is the judgment of the Internal Revenue Service that that inconvenience would be greatly outweighed by the advantages of less confusing tables.

Age credit. We recommend an age credit to replace the complex retirement income credit, which would be repealed. The base would be $1,500 in the case of a single taxpayer or in the case of married taxpayers where only one spouse is over 65; $2,250 for married taxpayers filing jointly; and $1,125 for married taxpayers filing separately. From that amount the taxpayer will deduct social security and railroad retirement benefits received. The credit will be 15 percent of the difference. No reduction is required for earned income. Retirees and widows over 65 should not be penalized if they need to work. This amendment will do away with a credit which is now so complicated that tens of thousands of our elderly taxpayers compute it incorrectly or fail to claim it, in favor of a slightly more liberal credit which is vastly more simple. The revenue loss will be $200 million.

These four recommendations may seem minor when considered individually, but they would, we believe, open the door to a major simplification in the return forms for a great many taxpayers.

<u>Recommendation to help meet the national energy needs.</u>

Our next recommendation is that Congress enact an investment credit for exploratory drilling.

Our annual consumption of oil and gas now exceeds the annual increase--through new exploration--of the known reserves in our own country. State regulatory commissions which formerly restricted production have lifted these limitations and production is up. Restrictions on the importation from abroad of crude oil have also been relaxed. However, the real need is neither for more rapid development and consumption of existing domestic reserves nor for imports which will worsen our balance of payments and tend to make us dependent on foreign sources. Instead, the need is for new exploration in the United States which will add to the national wealth of known oil and gas reserves for the future and assure the continued availability at reasonable prices at home--not abroad--of adequate fuel supplies. Like the 7 percent investment credit enacted in 1971 at President Nixon's recommendation, to which it is similar, this new credit will be an efficient tax incentive that will produce the desired results quickly and at comparatively little revenue cost.

This credit should serve as an overall incentive for new exploration in the United States. Further, it is structured to reward success by providing a greater credit for a commercially productive well. In this way the nation will be a guaranteed winner, for a successful well will at the same time both provide needed energy resources and also increase the tax revenues.

The new credit would extend to oil and gas exploration a proven and successful tax incentive device. The Limitation on Artificial Accounting Losses and to a lesser degree the Minimum Taxable Income provisions discussed above will limit somewhat existing incentives for oil and gas production. The new credit offsets the effects of that limitation. It is thus a rechanneling of existing incentives to a more efficient purpose--from production generally to the domestic exploration for which there is critical need.

Under the proposed credit a driller of a new domestic exploratory hole may claim the 7 percent investment credit on his intangible drilling costs plus an allowance for geological and geophysical expenses. If the exploratory hole proves commercially productive, a supplementary credit of 5 percent of the IDC will be allowed against the first tax payable on net income from the production.

An "exploratory hole" will be defined as a hole, intended to produce oil or gas, which is bottomed not less than two miles horizontally or 3,000 feet vertically from a producing well.

The 7 percent exploratory drilling investment credit, but not the supplementary 5 percent credit, will be subject to the same overall limitations which currently apply to the investment tax credit. In other words, no taxpayer may claim investment tax credit or exploratory drilling credit exceeding in the aggregate $25,000 plus 50 percent of his pre-credit tax liability in excess of $25,000. Carrybacks and carryovers for the exploratory drilling credit will be available on a similar basis to the investment tax credit.

Various special investment tax credit provisions, such as those regarding useful lives of eligible property, credit recapture, used property, public utility property, and pipeline companies, however, will not affect the exploratory drilling credit.

The credit will be available for exploratory wells drilled domestically, including off-shore, in Puerto Rico, and in territories or possessions of the United States or their surrounding waters. Wells drilled elsewhere will not. The credit will be available to corporations, individuals, or other entities.

The 7 percent credit will apply to all intangible drilling costs as currently computed. In addition, the credit base will include an allowance for geological and geophysical costs of up to $50,000 per exploratory well. The figure of $50,000 per well represents a conservative estimate of the national average of geological and geophysical costs per exploratory hole. Because allocation of geological and geophysical costs to any particular well is difficult or impractical, and because a generalized incentive to perform geological and geophysical activities within the United States is desirable, the taxpayer will be permitted to allocate to any exploratory well geological and geophysical costs, wherever incurred in the United States, up to the $50,000 limit. In order to prevent abuse, only wells 1,250 feet or more in depth will qualify for this geological and geophysical inclusion in the credit base.

The credit will be effective with respect to all drilling commenced after April 17, 1973.

Recommendation to provide property tax relief for the elderly.

This Administration has continually recognized the nation's problems with respect to the property tax and has been committed to reducing residential property taxes. Therefore, the revenues gained from the recommended tax reforms will be further used to provide major tax relief to the elderly--a large segment of our population who are now overburdened by excessive state and local property taxes on their homes.

While the burden of property taxes is a matter of increasing concern to all of our citizens, it falls with particular force upon elderly taxpayers. The Advisory Commission on Intergovernmental Relations estimates that in 1970 the average homeowner paid about 3.4 percent of household income in property taxes, while homeowners age 65 or older paid on the average about 8.1 percent. Elderly homeowners with less than $2,000 income paid an average of 16.6 percent of family income, and in the high-tax northeast region such homeowners paid more than 30 percent of their meager income in property taxes. Elderly renters are also affected; many are paying an excessive portion of their income in rent.

In scope and distribution this burden is a national problem. The imposition of excessive property taxes on the elderly undercuts social security and other federal programs designed to provide retirement benefits, as well as a minimum of security for the aged.

While many states have adopted measures to deal with this problem, the state response has generally proved insufficient.

Fourteen states have adopted state-financed tax rebate provisions (called "circuit-breakers") that are specifically designed to relieve property tax overload situations. Only seven of these provide full coverage for renters, and the fourteen states vary widely in the amount of relief afforded. For example, low income ceilings ($6,000 or less) in nine of the fourteen states deny relief entirely to the large number of middle income elderly now paying excessive property taxes.

To deal with these problems, we propose enactment of a refundable property tax credit for our low and middle income elderly. The credit would be allowed for real property taxes over 5 percent of household income, up to a limit on the credit of $500. Household income would be broadly defined to include items of income that are nontaxable but are nevertheless part of a household's economic income.

Equivalent relief would be afforded under the proposal to elderly renters. Available information from real estate assessors' offices and national income statistics indicates that real property taxes paid on rented homes and apartments average about 15 percent of rental value. The proposed credit would accordingly treat renters as having paid property taxes equal to 15 percent of their rental payments, and would subject them to the same floor and ceiling.

The credit would be phased out for household incomes between $15,000 and $25,000, so as to concentrate the benefits of the credit on low and middle income elderly persons. It would be refundable--a taxpayer would be entitled to a payment for any excess of his credit over his federal income tax due--to extend the benefit of the credit to the lowest income elderly who pay little or no federal income tax.

Recommendation to provide a nonpublic school tuition credit.

The nonpublic school system educates a tenth of our school children. In order to preserve this vital national asset and to provide needed tax relief for the many low and middle income families who bear a large part of the cost, we recommend enactment of a refundable income tax credit for nonpublic elementary and secondary school tuition.

The tax credit will apply only to tuition paid to non-profit schools and will be for 50 percent of the tuition paid for each child. The maximum amount of tax credit for any one child in a single school year will be $200. The credit will be claimed on the income tax return for the year in which the tuition is paid. To the extent the total credit exceeds the income tax liability, the excess will be refunded in a cash payment. In recommending this refundable feature, we are particularly concerned about low income families. We want them to benefit from the tuition credit even though they owe little or no federal income tax. To further concentrate the credit on the low and middle income families most in need of this important relief, the credit will phase out as income rises above $18,000.

The nonpublic school system plays a vital role in our society. These schools provide a diversity of education in the best of our traditions and are a source of innovation and experimentation in educational advances which benefit the public school system and the public in general. In many

American communities they are an important element of stability and civic responsibility. However, education costs are rising, the enrollment in the nonpublic schools is declining, and an important American institution may be in jeopardy.

The nonpublic school tuition credit will help reverse this trend. The revenue cost in fiscal year 1974 will be approximately $300 million, which is already included in the Administration's budget for fiscal 1974.

<u>Recommendation to increase the financing capabilities of state and local governments and to reduce the amount of tax-exempt interest</u>.

State and local governments have a rapidly growing need for revenues to provide public schools, highways, and the like, plus a wider array of new social and community services than ever before. The state and local tax bases have expanded and the rates of these taxes have in many instances gone up also. However, state and local governments have traditionally financed much of their immediate needs for heavy capital outlays through borrowing. They continue to do so today.

Their needs for adequate debt financing will increase, not diminish in the future. At present they are limited to the narrow market for tax-free obligations. The proposal would give them an option to utilize the broader market for taxable obligations when that seems to them advantageous.

Specifically, we recommend enactment of an additional tax provision which will make available to state and local governments the option of issuing either a tax-exempt bond, as they now do, or of issuing a bond on which the interest will be subject to federal income tax. If the governmental unit issues a taxable bond, in order to be attractive to investors the bond will have to bear a higher rate of interest than if it were tax exempt. To compensate the issuing government for this additional interest cost, the federal government will pay an interest subsidy equal to 30 percent of the net interest expense on a qualifying state or local obligation on which the issuer has elected to pay federally taxable interest. Generally, any state or local obligation now exempt from federal income tax would be eligible for the subsidy if the Secretary of the Treasury agrees to pay it and the issuer elects to subject the interest to federal tax. Certain limited exceptions are provided to prevent inordinate costs to the federal government.

The issuer would receive the 30 percent subsidy, less Treasury administrative costs, in time to make its interest payments to the bondholders. The issuer would have to report to the Internal Revenue Service the payments of the taxable interest.

The subsidy would not affect the exempt status of interest on nonsubsidized obligations, which will continue to be freely issued.

The proposal will provide a more stable market for state and local government obligations by enabling these governments to compete more effectively with corporations, especially when market rates are high. It will also make municipal obligations attractive to pension trusts and other exempt organizations, which presently do not typically invest in tax-exempt obligations. The subsidy program will also tend to reduce the supply of tax-exempt obligations and slightly depress interest rates on those remaining, thereby reducing both municipal borrowing costs and the availability and attractiveness of exempt obligations to high bracket taxpayers.

We estimate subsidy costs for the first year of $180 million, with increased tax receipts at about the same level, partly depending on the average marginal tax bracket of the holders of investors in tax-exempt obligations. A reasonable estimate is that there would be little net gain or loss to Treasury at the 30 percent subsidy level.

Recommendations with respect to arbitrage on advance refundings of state and municipal securities.

Prior to 1969 state and local governments had engaged in the practice of issuing securities on which they paid tax-free interest at low rates and investing the profits in higher yielding taxable securities.

The "arbitrage" spread between the nontaxable and taxable securities afforded a substantial profit to the issuers and spawned a substantial volume of state and local bonds

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which had no other legitimate purpose. The Tax Reform Act of 1969 provided that bonds of state and local governments would lose their tax-exempt character if issued in the expectation of investing the proceeds in higher yielding securities.

The easiest vehicles for abuse were so-called advance refunding bonds, which were new state and local obligations issued to refund outstanding old obligations that could not be called for a number of years. The proceeds of advance refunding bonds are typically placed in escrow and invested until the call dates of the old bonds, thus providing a pretext for issuing new bonds and investing the proceeds for long periods of time with arbitrage profit. A substantial volume of advance refunding bonds are issued for legitimate reasons unrelated to arbitrage. Since, under the 1969 Act, the proceeds of state and local bonds may not be invested in obligations bearing a materially higher yield, issuers are now required to invest proceeds of advance refunding bonds in securities having an artificially low yield. There is no other practical way to eliminate the practice of arbitrage. The result of the rule is that issuers are required to give away the windfall difference between the yields on the tax-exempt and taxable bonds. The beneficiaries are usually promoters, underwriters or banks, who have an understandable incentive to promote even more advance refundings. This is a fundamentally unhealthy situation.

We recommend that Congress enact an incentive to rechannel the windfall arbitrage element back to the United States. This is appropriate because it is the tax exemption provided by the United States which creates that windfall element.

This purpose would be accomplished by providing that in the case of advance refunding issues the proceeds may be invested to obtain a yield equal to the yield permitted under present law plus an additional one-fourth of one percentage point. Issuers would be entitled to this extra profit only if the proceeds were invested in special federal securities designated by the Treasury, which would be retained by the issuer until their maturity dates and used to retire the outstanding state or local obligations on their call date. Since most issuers are obligated by state law to invest funds at the highest permissible yields, we expect that most issuers of advance refunding bonds will invest in the new Treasury securities. This will allow the United States government to recover most of the taxes lost through tax-exempt advance refundings by issuing the special securities at very favorable rates. At the same time, issuers will be able to obtain higher yields than they can obtain under existing law and also enjoy the flexibility, safety and relatively low cost of the new federal investment securities. The only losers will be those promoters and underwriters who would otherwise pocket the windfall arbitrage profit.

Recommendations on the taxation of foreign source income.

President Nixon's April 10 message to Congress on trade legislation urgently requested, and committed him to help develop, legislation enabling the United States to enter this fall's international trade negotiations with the tools to build a fair and open trading world.

The interrelationship of taxes, trade and investment should not be lost upon us. Our tax system must be conducive to the long-run improvement of our position in world markets. Thus, President Nixon's trade message contained specific recommendations on the taxation of foreign source income. Let me restate those recommendations, which we arrived at after careful consideration of the arguments and theories abounding in this area.

A number of countries provide tax holidays from local taxes in order to attract investment. In order that American companies will not make their investment decisions on the basis of tax inducements of this sort, we request the amendment of our tax law to tax United States shareholders on the earnings from new investments which enjoy such tax incentives, even before such earnings are repatriated. We are prepared, however, in limited and appropriate circumstances, to enter into tax treaties with other countries, subject to Senate approval, to recognize certain such incentives.

In addition, we believe that a United States controlled corporation which moves its plant to enjoy lower foreign tax rates, while manufacturing goods for the United States market, should be taxed currently in the United States. We have proposed, therefore, that where a U.S. owned foreign corporation, subject to a significantly lower foreign tax rate, has more than 25 percent of its receipts from exporting goods destined for the United States, the United States shareholders should pay tax currently on its income.

Where United States companies deduct against U.S. income losses from their foreign branch operations, we have proposed to reduce their subsequent foreign tax credits by the amount of such losses. This will avoid the United States bearing the cost during the loss years and receiving no revenue during profitable years.

The President has also instructed the Department of the Treasury, in consultation with the Department of Justice, to institute procedures involving mineral importing companies, which import from their foreign affiliates, to determine inter-company selling prices and tax payments in advance, in order to expedite the determination and payment of their taxes.

Proposals with respect to tax return preparers.

A very large and growing number of individual income tax returns are prepared by employees of commercial firms who are neither lawyers nor accountants. On the whole, a good job is done by these firms and the trend to commercial preparation concerns us only to the extent that it indicates that taxpayers cannot--or in any event, believe they cannot--prepare their own returns. However, the Internal Revenue Service has been concerned for several years about a growing number of incidents which indicate negligence or fraud on the part of a minority of commercial preparers of tax returns.

It has been suggested that we institute a licensing program for tax preparers. The Internal Revenue Service believes that such a program is neither feasible nor appropriate.

A program of licensing everybody will not cure the negligence and fraud of a minority, and would be a clear case of overkill. The principal result of a licensing program would be to insist upon the overqualification of tax return preparers, which would result in excessive costs to the public.

We do, however, believe that some steps are required to make tax return preparers responsible to a greater degree than at present for the returns they prepare and to raise the degree of compliance with the internal revenue law.

We, thus, propose a three-part approach.

First, the proposed legislation will require each tax return preparer to place his identification number on each return he prepares, and will require a person who employs tax return preparers to file a return listing the name, taxpayer identification number, and place of work of each such employee. This information will facilitate inspection of the manner in which a tax return preparer conducts his preparation service when facts warrant such investigation.

Second, the proposed legislation will provide civil penalties for tax return preparers in the case of negligent or intentional disregard of the internal revenue laws and in the case of willful attempts to evade, defeat, or understate a taxpayer's tax liability.

Third, the proposed legislation will authorize injunctive action against preparers who engage in conduct subject to civil or criminal penalties or other acts which substantially interfere with the administration of the internal revenue laws. Thus, although some of the civil penalties provided may appear to be nominal, the provisions themselves will serve a dual function, since the acts involved will also be grounds for injunctive relief.

Taxation of political contributions and activities.

I would like to ask your Committee to consider the manner in which the income tax laws should be applied with respect to political parties. I have no specific legislative proposals to present on this subject because we believe it is a subject best left to Congress. Nonetheless, I should like to explain how the tax aspects of political operations present problems in the administration of the tax law, and to suggest several areas about which we are concerned.

The income tax status of political parties has been in legal limbo since the beginning of our income tax system. It is a matter of history that the Internal Revenue Service has never attempted to tax political parties, although there is nothing specific in the Internal Revenue Code which says that they are nontaxable. The situation with respect to political parties is much the same as the situation with respect to social security, as there is nothing in the Internal Revenue Code which makes social security benefits nontaxable, either. They have just grown up that way.

In the absence of a specific statutory rule, we find that there are no clear rules to govern the more complicated transactions. Thus, for example, in last year's campaign we found emerging a practice of making contributions "to political parties in the form of appreciated securities, in the apparent expectation that neither the donors nor the political parties would be taxable on the appreciation." This occurred with respect to both major political parties and was apparently done without realization that the contribution and subsequent sale of the property might have income tax consequences for the parties involved. The Internal Revenue Service in noting the practice, issued an announcement cautioning that tax consequences might result from the contribution and subsequent sale of securities, and asked for public comment on that issue.

Comments both oral and in writing were received from a number of persons and organizations, including the two major political parties. These comments reflected widely differing points of view and legal positions but taken as a whole strongly support our belief that the tax status of political parties and committees and the tax status of various aspects of political activity require a legislative solution.

It is argued, with much cogency, that political parties have never in fact been taxed, and that nontaxable status is presently accorded a wide variety of public organizations, including civic leagues, country clubs, labor unions, lodges, and cemetery companies--many of which are less committed to a general public purpose than are political parties.

We believe that Congress should address itself to this problem and make it clear whether political parties are to be completely nontaxable, or are to be taxable for some purposes but not for others, or are to be taxable in their entirety.

Second, we ask that your Committee consider the specific problem raised by the contribution of appreciated securities or other property. If an individual contributes to a political party securities for which he paid $1,000 and which are now worth $5,000, should he or the party or either of them be taxable on the $4,000 of gain? If the political party is nontaxable and the contribution is treated as a gift, neither the contributor nor the party has income tax liability under present concepts. The common law which has grown up is that the contribution is a gift. I suggest that you should reconsider that rule. If the individual had himself purchased television time or billboard space to extol his preferred candidate and had used appreciated securities to pay for it, he would have been taxable on the $4,000 of gain. Should the result be different if he contributes the securities to a political party which in turn buys the same television spot or billboard space? Should contributions to a political party be treated as payments to the party to advance objectives favored by the contributor? Should such contributions be treated differently from club or union dues or assessments, which are not thought of as gifts but rather as payment for services to be performed?

That raises a third question which we ask you to consider, which is whether such payments should be treated as gifts for gift tax purposes. The Internal Revenue Service has held for many years that they are, although a recent court decision in the Fifth Circuit has held to the contrary.

We believe it essential both to our political processes and to the administration of the tax laws, that any rules adopted be clear rules so that we may carry forward the serious business of electing public officials and of collecting the revenue without injecting politics into the revenue system. Whatever solution is adopted, the objective, of course, must be to preserve the integrity and independence of our political system and its political parties. We urge that whatever rules you prescribe you adopt an approach that will minimize the involvement of the Internal Revenue Service in the affairs of the political system.

Estate and gift tax revisions.

I am not today proposing specific changes in the laws relating to estate and gift taxes. That does not mean that we are opposed to change.

Most of the controversy involving estate and gift taxes turns on matters of personal philosophy. There is no one key to truth in this area and even individuals of the same political persuasion feel differently and deeply. The permutations and combinations of options are myriad. Differences in view must be compromised for they cannot be reconciled, and Congress is the best place to do it.

We do have several broad convictions which I urge you consider as you approach this project.

First, we urge that whatever changes are made in estate and gift tax laws, they be balanced in a way which does not change the overall revenues from these taxes.

Second, we believe that whatever changes are made, transition rules are of the greatest importance. You should not change the basic rules so abruptly that you frustrate the lifetime planning of millions of our citizens who have arranged their affairs in reliance on existing rules. You should be careful not to subvert the sense of responsibility with which our citizens work to build their businesses and their estates on behalf of their families.

Third, we urge that you do nothing which will jeopardize the vitality of our voluntary charities, which depend heavily on gifts and bequests. These organizations are an important influence for diversity and a bulwark against over-reliance on big government. The tax privileges extended to these institutions were purged of abuse in 1969 and we believe the existing deductions for charitable gifts and bequests are an appropriate way to encourage those institutions. We believe the public accepts them as fair.

The principal issues in the estate and gift tax area have been identified as the problems of rates, the treatment of unrealized appreciation at death, generation-skipping, a unified gift and estate tax and changes in the marital deduction. We have no magic answer to any of these items but we shall be pleased to work with your Committee and share with you what expertise we have.

Other items.

I have not spoken today of the Administration's proposal with respect to pensions for that topic will be the subject of detailed testimony on a later occasion.

I have tried today to outline those subjects which, in our opinion, have the greatest priority. There is a great backlog of lesser substantive and technical provisions which should be considered by your busy Committee. I am hopeful that with the assistance of our joint staffs many of them can be considered on this occasion and that for those which are not, we can devise a system for their orderly consideration in the future. Among the particular items which we hope you will find time to deal with are the proposals which we recently submitted clarifying the tax law with respect to prisoners of war and those missing in action.

The major proposals which I have outlined are made after careful analysis and in a continuing effort to reform our tax structure so it will be more equitable and efficient, so it will be more conducive to stable economic growth, and so it will be more responsive to urgent social needs. We have taken significant steps toward achievement of these objectives. More needs to be done and we look forward to working constructively with your Committee in the days ahead.

Table 1

Effect on Individual Income Tax Liability of Tax Reform Act of 1969, ADR and the Revenue Act of 1971
Full-year Effect at Calendar Year 1971 Levels of Income

Adjusted gross income class	Tax under 1968 law 1/	Tax under 1972 law	Change under 1972 law from 1968 law: Amount	Percent
($000)	(..............	$ millions	..............)	(..... % ....)
0 - 3	1,469	265	-1,204	-82.0
3 - 5	3,488	1,995	-1,493	-42.8
5 - 7	5,543	4,025	-1,518	-27.4
7 - 10	12,263	10,112	-2,151	-17.5
10 - 15	22,065	19,202	-2,863	-13.0
15 - 20	15,287	13,891	-1,396	-9.1
20 - 50	19,375	18,377	-998	-5.2
50 - 100	7,344	7,217	-127	-1.7
100 and over	7,131	7,658	+527	+7.4
Total	93,965	82,743	-11,222	-11.9

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Office of Tax Analysis

April 25, 1973

1/ Excluding surcharge.

Table 2

1971 Gross Private Business Sector Product and Income Taxes

Item	1971 Gross Product		Allocated Federal income taxes	
	Amount	Percent	Amount	Percent
	($ Billions)		($ Billions)	
Gross National Product	$1,050.4	100.0%	$120.6	100.0%
Gross product originating in the private business sector 1/	812.2	77.3	104.6	86.7
Claims against product:				
Compensation of employees 2/	528.3	50.3	55.4	45.9
Profits 2/	86.7	8.3	45.3	37.6
Rent	10.7	1.0	1.5	1.2
Interest	18.4	1.8	2.4	2.0
Capital consumption allowances	81.3	7.7	--	--
Indirect taxes	86.7	8.3	--	--

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1/ Excludes households, including imputed rental of owner-occupied dwellings, non-profit institutions, and all government activity.

2/ Self-employed, proprietors' and partners' incomes have been allocated as between personal service and capital incomes, compensation of employees and profits.

Source: Adapted from tables in the *Survey of Current Business*, July 1972.

Table 3

Net Domestic Investment* and as Percent of GNP
(Millions of U. S. dollars)

Country	1950		1955		1960		1965		1970	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
United States	$ 32,843	11.4	$ 35,626	8.8	$ 36,835	7.2	$ 52,093	7.5	$ 61,645	6.2
Canada	1,866	11.0	2,865	10.6	3,789	10.4	6,294	13.0	7,981	10.5
Japan	N.A.	-	2,539	10.6	8,589	20.0	16,010	18.2	42,928	21.6
United Kingdom	2,075	5.6	3,800	7.1	6,075	23.6	10,017	27.9	11,319	9.3
Germany	1,919 1/	8.2	6,128 1/	14.3	10,640	15.0	17,933	15.9	29,317	15.7
France	1,846	6.5	4,166	8.6	7,032	11.4	14,241	14.3	22,982	15.5
Netherlands	513	10.3	1,058	13.4	1,635	14.4	3,039	15.8	5,579	17.7
Italy	N.A.	-	2,895	12.0	4,749	13.5	6,032	10.2	11,767	12.6
Sweden	1,115 2/	19.3 2/	1,857 2/	20.3 2/	1,653	12.7	2,945	14.3	4,071	13.2
Belgium	N.A.	-	695	7.6	1,013	8.8	2,131	12.5	3,237	12.5

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* Figure obtained by subtracting "depreciation and other operating provisions" from "gross domestic fixed asset formation."

1/ Excludes the Saar and West Berlin.

2/ Amount of "depreciation and other operating provisions" not available making amount and percentage larger than in actuality.

Source: OECD, National Accounts of OECD Countries.

Table 4

MTI

(Minimum Taxable Income)

CURRENT LAW

Salary		$100,000
Stock Option Bargain		(Excluded)
Long-term Gain on Stock	$100,000	
Less 50% Exclusion	(50,000)	
	50,000	50,000
Mineral Income	$100,000	
Percentage Depletion	(40,000)	
	60,000	60,000
Adjusted Gross Income:	(AGI)	210,000
Less Deductions:		
Interest on Deep Discount Bond Margin Loan	25,000	
Charitable Contribution to Public Charity	100,000	
State Income Tax	30,000	
Other Personal Deductions	49,000	
Exemptions	6,000	
	210,000	(210,000)
Taxable Income		0
Tax (Joint Return) (Minimum Tax)		$11,000

MTI

AGI	$210,000
+Option	50,000
+Percentage Depletion	40,000
+Excluded Gains	50,000
Expanded AGI	$350,000
Less Exemptions	(6,000)
Low Income Floor	(10,000)
MTI Base	$334,000
x 50% = MTI =	$167,000
Tax	$88,340

Table 5

ADMINISTRATION'S TAX PROGRAM

MAGNITUDES OF REVENUE CHANGES

The following numbers are approximations only. They represent judgments based on data available, which are more reliable in some instances than others. Some items will change over a period of years, e.g., the proposal with respect to foreign losses phases in gradually and will produce revenue gains rising slowly from zero in the first year to something in the neighborhood of $150 million after 10 years. (It is reflected in the table at zero.)

Readers are accordingly cautioned that the estimates should be used only to indicate the order of magnitudes involved.

		First full-year effect ($ millions)
New Items		
1. Minimum taxable income and tax shelters	+1,000	
Less repeal of the 10 percent minimum tax	-200	+800
2. Simplification		-400
3. Investment credit for domestic oil and gas exploration		-50
4. Property tax credit for elderly		-500
		-150
Budgeted Item		
5. Tuition credit for nonpublic schools		-450

Office of the Secretary of the Treasury
Office of Tax Analysis

April 27, 1973

Explanation

I. Minimum Taxable Income (MTI)

General Explanation

1. SUMMARY OF PROPOSAL

The proposal is designed to assure that every individual will pay a reasonable amount of federal income tax relative to the size of his income. This will be accomplished by requiring that every individual's taxable income, to which the present graduated tax rates are applied, be no less than his "minimum taxable income," which is approximately one-half of his adjusted gross income expanded to include specified tax preferences which represent exclusions from income under present law.

The minimum taxable income will be determined as follows:

(i) By *adding* to present law adjusted gross income the total of percentage depletion in excess of basis, the excluded one-half of net long-term capital gains, exempt earned income from foreign sources, and the nontaxable bargain element in certain stock options to arrive at Expanded Adjusted Gross Income (EAGI);

(ii) By *subtracting* from EAGI, the deductions for personal exemptions, a $10,000 floor, extraordinary medical expenses, extraordinary casualty losses and investment interest (and investment expense) to the extent of investment income to arrive at the MTI Base; and

(iii) By *dividing* the resulting MTI Base by two to arrive at "minimum taxable income."

Every individual will be required to pay tax on the greater of his minimum taxable income or his normal taxable income computed in the usual manner.

The specified exclusions [1] and all itemized deductions will be permitted to operate freely within the area of up to one-half of income, but in all events the other one-half of income will be subject to income tax. Because of the $10,000 floor, the adjustments for extraordinary

[1] Other exclusions from income which affect primarily lower and middle income taxpayers will not be subject to the MTI limitation. These exclusions from income which will not be affected by MTI include amounts received under health and accident plans, rental value of parsonages, scholarship and fellowship grants, etc.

medical expenses and casualty losses and other reasons, MTI will have little or no impact on taxpayers in income brackets below $50,000.

MTI is not a form of a "minimum tax" like the provision in present law which imposes a flat 10 percent tax on specified "tax preferences." Instead, MTI will be part of the regular income tax structure in which the rates of tax range from 14 to 70 percent. MTI will be a more effective solution, consistent with our graduated tax rate system, to the problem to which both MTI and the present Minimum Tax are directed.

The proposed MTI provision, in combination with the proposed Limitation on Artificial Accounting Losses (LAL), will be substituted for the present Minimum Tax on individuals.[2] Under these provisions, in contrast to the present Minimum Tax which treats all tax preferences the same, different types of preferences will be separated and treated differently. LAL will apply to deferrals of tax and MTI will generally apply to exclusions from tax.

2. PURPOSE AND EFFECT OF PROPOSAL

MTI is designed to provide, in combination with other proposals, an effective solution to the problem that some high income taxpayers do not pay tax on substantial portions of their income. The present Minimum Tax on "tax preferences" was also intended to address this problem. However, that provision imposes only a flat 10 percent tax on certain enumerated tax preferences if they are large in amount. By contrast, MTI is predicated upon the proposition that taxpayers should not be permitted to avoid the income tax rates, graduated from 14 to 70 percent, either through exclusion preferences, itemized deductions or the payment of a 10 percent surcharge.

Under MTI, it will no longer be possible for a taxpayer to reduce his adjusted gross income more than 50 percent by application of the specified exclusions from income, and it will in general no longer be possible to have a taxable income which is less than one-half of this expanded adjusted gross income.

3. BACKGROUND OF PROPOSAL

A. The situation under prior law

Prior to the enactment in 1969 of the present Minimum Tax on individuals, there was no limitation at all on the total amount of deductions and exclusions from income an individual could utilize in

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[2] The present Minimum Tax on corporations will be retained. The principal application of MTI will be to individuals, but it can readily apply to estates and trusts also.

computing adjusted gross income.[3] Some individuals arranged their affairs to obtain excessively large amounts of deductions and excludable income. As a result, they did not pay income tax on substantial portions of their incomes. Some individuals with high incomes paid tax at lower effective rates of tax than persons of more modest means, and in a few instances paid no income tax at all.

The present Minimum Tax and other proposals to remedy this situation have, therefore, characterized as "tax preferences" certain deductions and exclusions from income.

B. The role of deductions and exclusions

The purpose of deductions and exclusions from income generally is to achieve as much precise equity as is possible in applying a general tax statute to millions of individual taxpayers whose personal circumstances vary widely and who earn their incomes in many different and complex ways.

Numerous deductions and exclusions are permitted in computing the amount on which an individual will actually pay tax when he files his tax return. They may either be deductions in arriving at adjusted gross income (usually called business deductions) or deductions from adjusted gross income in arriving at taxable income (usually called itemized or personal deductions).

Because of these provisions, there may be a significant difference between an individual's income in an economic sense and the "taxable income" on which he actually pays income tax. Within reasonable limits, this variation has been intended by the Congress and is inherent in our form of income tax system, which is basically designed to subject to tax only the net income remaining after recovery of the expenses and capital consumed in earning it and after setting aside a basic sum for certain personal expenditures of the taxpayer and his family.

For example, income devoted to the payment of certain personal expenses is not taxed, e.g., mortgage interest and property taxes on a residence, medical expenses, etc. The same is true of the income a person does not keep for himself, but instead contributes to charity. In some instances, the deductions or exclusions may be intended to provide special tax relief as in the case of deductions for the elderly or may contain an additional element of incentive to compensate the taxpayer for a risk or hardship or for devoting his efforts and resources to accomplishing some national goal.

[3] Under present law, there is no limitation on the total amount of itemized deductions an individual can substract from his adjusted gross income to arrive at taxable income.

Although they must continually be re-examined, most deductions and exclusions from income serve worthwhile purposes, and ought to be classified as "tax preferences" only to the extent they are used to excess by any one individual and result in the person paying less than a reasonable amount of income tax.

C. The present Minimum Tax

The Minimum Tax enacted in 1969 is a 10 percent tax on the amount of an individual's "tax preferences" in excess of the sum of (i) $30,000 and (ii) his income tax.[4] It is not an income tax as such, but instead is a flat 10 percent surcharge on specified deductions and exclusions from income. Other than the 10 percent tax, there is no actual limitation on the amount of deductions or exclusions which can be taken by a taxpayer.

Experience with the Minimum Tax since 1969 reveals that the provision has not been effective in requiring every individual to pay a reasonable amount of tax based on a substantial portion of his income.

As applied to individuals, the Minimum Tax includes eight "tax preferences" which are either deductions or exclusions in arriving at adjusted gross income. Some merely represent a deferral of tax and others represent exclusions from tax.

The principal tax preferences for individuals under the Minimum Tax are as follows:[5]

(i) *Accelerated depreciation on real property.* The excess of accelerated depreciation (or amortization on rehabilitation housing) over straight line depreciation.

(ii) *Accelerated depreciation on personal property subject to a net lease.* The excess of accelerated depreciation over straight line depreciation.

(iii) *Percentage depletion.* The excess of percentage depletion over the adjusted basis of the property.

(iv) *Capital gains.* One-half of the amount by which the net long-term capital gain exceeds the net short-term capital loss for the taxable year.

(v) *Stock options.* The amount by which the fair market value of stock at the time of exercise of a qualified or restricted stock option exceeds the option price.

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[4] The income tax may also include such taxes paid in prior years and carried over to the current year.

[5] There are three other preferences under the Minimum Tax which can, but rarely do, apply to individuals. These relate to amortization of railroad rolling stock, pollution control facilities and on-the-job training and child care facilities.

Technical Explanation of Proposal

1. TAX PREFERENCES UNDER MTI

MTI will apply to the following exclusions from income: [6]

(i) *Percentage depletion.* The excess of the percentage depletion under section 611 over the adjusted basis of the property at the end of the taxable year (determined without regard to the depletion deduction for the taxable year).

(ii) *Capital gains.* One-half of the amount by which the net long-term capital gain exceeds the net short-term capital loss for the taxable year.

(iii) *Stock options.* The amount by which the fair market value of stock at the time of exercise of a qualified or restricted stock option (as defined in sections 422(b) and 424(b)) exceeds the option price.

(iv) *Exempt earnings.* The amount of earned income from sources without the United States which is exempt from tax under section 911.

2. COMPUTATION OF TAXABLE INCOME UNDER MTI

Taxable income will be the greater of (i) the normal taxable income computed in accordance with section 63 as under present law or (ii) the minimum taxable income.

The minimum taxable income is one-half of the MTI Base which is (i) adjusted gross income, (ii) increased by the specified exclusion preferences, and (iii) decreased by personal exemptions, $10,000 and certain other adjustments.

Thus, MTI imposes a limitation on excessive amounts of exclusion preferences in computing adjusted gross income and on excessive amounts of itemized deductions from adjusted gross income in computing taxable income.

Expressed as a formula, the minimum taxable income is as follows:

$$\frac{\text{AGI} + \text{exclusion preferences} - \text{personal exemptions} - \$10{,}000 - \text{extraordinary medical expense and casualty loss} - \text{certain investment interest and expense}}{2}$$

Computation of minimum taxable income will involve only three steps.

Step One: *Computation of Expanded Adjusted Gross Income (EAGI).*

[6] The first three of these are the only exclusion "preferences" covered by the present Minimum Tax and are the same as now described in section 57(a)(6), (8) and (9). In general, Minimum Tax deferral preferences applicable to individuals, as well as additional deferral preferences, will be dealt with by the companion proposal for enactment of a Limitation on Artificial Accounting Losses (LAL).

Expanded Adjusted Gross Income (EAGI) will be computed as follows:

(i) Adjusted gross income as defined in section 62; plus

(ii) The total amount of the four specified exclusion preferences.

Step Two: *Computation of MTI Base.*

The MTI Base will be computed by subtracting from EAGI the following:

(i) The deductions for personal exemptions under section 151;

(ii) The amount of $10,000;

(iii) The amount by which the taxpayer's medical, dental, etc., expense deductible under section 213 exceeds 10 percent of EAGI;

(iv) The amount by which the taxpayer's casualty loss deductible under section 165 from adjusted gross income exceeds 10 percent of EAGI; and

(v) The amount of the taxpayer's investment interest and investment expense deductible under section 212 from adjusted gross income which is equal to his investment income. See paragraph 5, infra, for additional option to defer these interest deductions.

Step Three: *Minimum Taxable Income.*

The MTI Base will be divided by 2. The result is the taxpayer's "minimum taxable income", which is the amount to which the graduated income tax rates will be applied if it is greater than his normal taxable income computed without regard to MTI.

3. TAXPAYERS TO WHOM MTI WILL APPLY

MTI will affect approximately 130,000 tax returns. Nearly all of these returns will be in income classes above $50,000.

The purpose of the $10,000 floor is to exclude from MTI low and middle income taxpayers. The additional offsets for medical expenses and casualty losses will permit taxpayers at all income levels to pay tax on less than one-half their income, free of the MTI limitation, when this is due to incurring in the taxable year extraordinarily large expenses of a catastrophic nature. (Additional adjustment could also be allowed for other special circumstances such as extraordinarily large and unusual *employee* expenses.)

All taxpayers who take the standard deduction or low income allowance will be exempt from MTI.[7] Any taxpayer who itemizes deductions will be automatically excluded from MTI if adjusted gross income (less personal exemptions plus exclusion preferences) is not more than $10,000. This simple test can appear on the face of Form 1040 and will instruct most taxpayers to skip completion of the MTI Schedule.

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[7] In order to provide this exemption from MTI, individuals whose exclusion preferences are in excess of their adjusted gross income will not be permitted to elect the standard deduction or low income allowance.

MTI will add only one instruction and only about ten lines to Form 1040 itself.

4. ILLUSTRATION OF THE BASIC PRINCIPLES OF MTI

The following example illustrates the basic principles of MTI.

Example

For the taxable year the taxpayer has:

a. $175,000 of ordinary income ($100,000 of net income from oil wells before taking the percentage depletion deduction, $50,000 professional earnings, and $25,000 dividends and interest).

b. $100,000 long-term capital gain from stock.

c. $50,000 deduction of one-half the capital gain.

d. $50,000 percentage depletion deduction (basis is zero).

e. $75,000 itemized deductions.

f. Joint return; $3,000 deduction for four personal exemptions.

Under present law, adjusted gross income is $175,000 ($175,000, plus $100,000 capital gain, less $50,000 capital gains deduction and less $50,000 percentage depletion). Normal taxable income is $97,000 ($175,000 AGI, less $75,000 of itemized deductions, less $3,000 for personal exemptions). Income tax under present law, computed using the alternative tax on capital gains, is $42,620. The amount of "tax preferences" subject to the 10 percent minimum tax is $27,380 (preference items are one-half of the long-term capital gain or $50,000 and percentage depletion of $50,000 reduced by a floor of $30,000 and the income taxes of $42,620 as allowed under the Minimum Tax). Minimum Tax is $2,738, and total tax is $45,358.

Under MTI, Expanded Adjusted Gross Income is $275,000 (AGI of $175,000, plus $50,000 of excluded long-term capital gains, plus percentage depletion of $50,000). The MTI Base is $262,000 (EAGI of $275,000, less $3,000 for personal exemptions, less $10,000). Minimum taxable income is $131,000 (MTI Base of $262,000 divided by 2). Income tax is $64,620.

5. MTI AS A LIMITATION ON INVESTMENT INTEREST AND EXPENSE; REPEAL OF PRESENT SECTION 163(d)

MTI [8] will be substituted for the present limitation in section 163(d) on the deductibility of excess investment interest. Under present law, investment interest may be deducted up to the sum of (a) $25,000, (b) net investment income (plus cash losses from property subject to net leases), (c) the excess of net long-term capital gains over net short-term capital losses, and (d) one-half of the investment interest in excess of the sum of (a), (b) and (c).

[8] In combination with the companion proposal for a Limitation on Artificial Accounting Losses (LAL).

Section 163(d) applies to interest deductible from gross income in arriving at adjusted gross income (such as interest paid to purchase or continue rental real estate which does not constitute a trade or business), as well as to interest which is an itemized deduction from adjusted gross income in arriving at taxable income (such as interest to purchase or continue investments in stocks and bonds). The definition of investment income under section 163(d) correspondingly includes, e.g., both rents and royalties, as well as dividends and interest. Section 163(d) does not apply to investment expenses other than interest.

Under MTI, those investment interest costs and investment expenses which are deductions from adjusted gross income in arriving at taxable income (as in the case of interest to purchase or continue stocks and bonds) will be allowed as an adjustment to the MTI Base to the extent of investment income, i.e, dividends, interest and net short-term capital gains. The excess of such investment interest and expense over investment income will be subject to the general MTI limitation on itemized deductions from adjusted gross income.[9]

However, MTI will with respect to such investment interest provide a special option to the taxpayer to defer the deduction and in effect preserve it for use in a succeeding taxable year to offset such investment income or to increase the basis of the investment asset to which it directly relates. Under this option, only investment interest to purchase or continue a particular investment, and paid on indebtedness secured by that investment, could be deferred. This option will match income with the expense of earning it. Also, the deferred interest may offset capital gains instead of the interest being deductible against ordinary income taxable at full rates and the income being taxed at capital gains rates (See Example).

Example of Deferral Option

The taxpayer has an investment interest deduction (deductible from adjusted gross income) on an indebtedness to purchase 100 shares of stock. If MTI would disallow all or a major part of the investment interest deduction, the taxpayer would have the option to defer deduction of the interest by treating it as an artificial accounting loss under LAL. In that event, he would deduct the deferred interest against the first dividend income from the 100 shares of

[9] The companion proposal for a Limitation on Artificial Accounting Losses (LAL) will apply to deductions in arriving at adjusted gross income. LAL will apply to construction period interest on certain real estate, and although it will not deal directly with other interest which is deductible in arriving at adjusted gross income, its application to accelerated depreciation on rental real estate and personal property subject to a net lease will have results similar to section 163(d).

stock in the future, and any balance left at the time of sale of the 100 shares of stock would be added to the basis.

In addition, under present law a taxpayer is permitted to carry over to a suceeding taxable year excess investment interest disallowed under section 163(d). Although, section 163(d) will be repealed for taxable years to which MTI applies, excess investment interest from a prior taxable year to which section 163(d) applied will be permitted to be carried over and deducted in a year to which MTI applies, subject (in the case of the portion of the interest carryover which is deductible from adjusted income) to the general MTI limitation on itemized deductions. Any such excess investment interest carried into a taxable year to which MTI applies, and which is under MTI not deductible in that year, will be preserved as a carryover into a succeeding year.

6. ADDITIONAL AMENDMENTS: EFFECT OF MTI ON OTHER PROVISIONS

Since MTI limits preference exclusions and itemized deductions, additional conforming amendments to other provisions of the Internal Revenue Code will be required. These include (i) the Maximum Tax on earned income under section 1348, (ii) the alternative tax on capital gains under section 1201(b), (iii) the adjusted basis provisions as they relate to stock acquired by exercise of a qualified or restricted stock option, and (iv) the provisions of section 170 relating to percentage-of-income limitations on deductibility of charitable contributions and the carryover of excess contributions.

A. Maximum tax under section 1348 on earned income

Section 1348 of present law provides in general for a maximum rate of tax of 50 percent on that portion of an individual's earned taxable income in excess of his tax preferences over $30,000. The Maximum Tax will be made inapplicable to taxpayers to whom MTI applies, i.e, those whose minimum taxable income exceeds their normal taxable income. In addition, for individuals not affected by MTI the Maximum Tax will be modified to accommodate the different treatment of tax preferences under the proposals.

Under present section 1348, the portion of taxable income which is earned taxable income and therefore subject to the maximum 50 percent rate of tax is as follows:

$$\text{Taxable Income} \times \frac{\text{Earned Net Income}}{\text{Adjusted Gross Income}} = \text{Tax Preferences}^{10}$$

[10] The amount of this offset for tax preferences is either (i) the tax preferences for the taxable year in excess of $30,000 or (ii) one fifth of the sum of the tax preferences in excess of $30,000 for the current year and the preceding four years, whichever is greater.

The effect of tax preferences is to reduce the benefits of the Maximum Tax.

As section 1348 is proposed to be amended, earned taxable income will be computed as follows:

$$\text{Taxable Income} \times \frac{\text{Earned Net Income}}{\text{Expanded Adjusted Gross Income}}$$

Since the denominator of the above fraction will be Expanded Adjusted Gross Income (EAGI), earned taxable income will be the same proportion of taxable income as earned net income bears to EAGI (which includes tax preferences). Tax preferences are not applied in further reduction of earned taxable income in the same manner as under present law.

B. Alternative tax on capital gains

The alternative tax on capital gains under section 1201(b) will not apply to those whose minimum taxable income exceeds their normal taxable income.

C. Adjustments to the basis of stock acquired by exercise of an option

The bargain element in a qualified or restricted stock option (as defined in sections 422(b) and 424(b)) is a tax preference under both MTI and the present Minimum Tax. The tax preference is the amount by which the fair value of the stock at the time of exercise exceeds the price the optionee pays for it, since the optionee does not pay income tax on this difference in value even though it is compensatory in nature and would constitute ordinary income if it were not expressly excluded from income by section 421. He will, however, later be taxed on it when he realizes the value by sale of the stock. This tax will be at capital gains rates, and under present law the basis of the stock will not be increased by the amount of the 10 percent Minimum Tax he may have paid when he exercised the option.

Since under MTI the difference in value or bargain element of a stock option will be taken into account in computing minimum taxable income and subjected to graduated rates of tax, the basis of the stock will be increased by the amount of the increase in taxable income attributable to the stock option.

C. Limitation on charitable contributions and charitable contribution carryovers

Enactment of the MTI provisions will permit repeal of the present 50 percent of income limitation on charitable contributions contained in section 170(b)(1)(A). Under present law, an individual is permitted a deduction for certain contributions to churches, schools, publicly supported charities, etc., of no more than one-half of his contribution base which is generally adjusted gross income. Since a basic principle of MTI is to limit total itemized deductions to approximately one-half of adjusted gross income, the MTI provisions supersede the present 50 percent limitation on charitable contribution deductions and accordingly, the latter will be repealed.

Present law provides additional limits on the deductibility of contributions of certain types of property and of contributions to certain types of charitable organizations such as private foundations. These provisions will (with the exception of section 170(b)(1)(B)(ii)) remain in effect as limitations in addition to the general MTI limitation on these and other itemized deductions.[11]

Also, under present law an individual is entitled to carry forward charitable contributions in excess of the limitations in Section 170. Excess contributions made in years prior to MTI will be carried over in accordance with section 170 and deducted in taxable years to which MTI applies. Contributions carried into MTI years may not, when added to all other itemized deductions, exceed the maximum allowable amount of itemized deductions under the MTI rules. Any amount carried into a MTI year which when added to other itemized deductions exceeds that maximum may be carried into subsequent years if otherwise permitted by section 170. (For this purpose, any such carryover would be applied ahead of any excess investment interest under section 163(d) also carried into the taxable year.)

D. Other miscellaneous amendments

In addition, it is anticipated that in other instances amendments will be necessary either to the law or the regulations thereunder. These include application of the foreign tax credit on earned income from sources without the United States now fully exempt under section 911, as well as the allowance of the expenses of earning such income to the extent it is taken into account under MTI and increases taxable income. Also provision will be made for application of the income averaging provisions in sections 1301 through 1305.

7. EFFECTIVE DATE OF MTI AND OTHER AMENDMENTS

MTI will apply to taxable years beginning after December 31, 1973. Section 163(d) and the limitation in section 170(b)(1)(A) will be repealed effective for taxable years beginning after December 31, 1973.

[11] It is contemplated that the special unlimited charitable contribution deduction in section 170(b)(1)(C) would be an exception to MTI since it will not, by its present terms, be available for taxable years beginning after December 31, 1974.

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II. Limitation on Artificial Accounting Losses (LAL)

General Explanation

1. SUMMARY OF PROPOSAL

The Limitation on Artificial Accounting Losses (LAL) is designed to eliminate "tax shelters", which have introduced substantial distortions into the income tax system. Tax accounting rules will no longer be permitted to create from a profitable enterprise an artificial tax loss to be deducted against (and shelter from tax) other unrelated income. Under present law, such losses reduce adjusted gross income and make tax shelters possible.

Artificial accounting losses limited by LAL will neither be permanently disallowed nor capitalized. Instead, they will be suspended and carried forward to be deducted in full against net related income in a future taxable year, thus more correctly matching income with the expense of earning it.

Because LAL is carefully directed at a narrow, but significant, problem under present law it will affect relatively few taxpayers. LAL will apply only where there are artificial "losses". While such losses are frequently generated in the mineral, real estate and agricultural industries, LAL will normally affect neither the ordinary farmer, the professional oilman, nor the ordinary real estate developer, but rather the outsider who buys into those industries in search of tax "losses." Artificial "losses" from such sources as accelerated depreciation, the current deduction of pre-opening costs, intangible drilling costs on successful wells, and prepaid feed deals, will no longer be permitted to shelter unrelated income.

LAL will be prospective in effect and appropriate transition rules will be provided. LAL will not apply to transactions or commitments entered into prior to May 1, 1973.

The proposed Limitation on Artificial Accounting Losses (LAL) will apply to individuals but not to corporations. In combination with the proposal for a Minimum Taxable Income (MTI) provision, LAL will be substituted for the present Minimum Tax[1] on individuals.

2. PURPOSE AND EFFECT OF PROPOSAL

The reduction of adjusted gross income by artificial accounting losses under present law permits some high-income taxpayers to avoid much or all of the tax on their regular income.

[1] The present Minimum Tax on corporations will remain in effect.

Enactment of the proposed limitation on artificial accounting losses will eliminate abuses associated with "tax shelters", while preserving the basic tax accounting and accelerated deduction provisions now in the law, of which some are necessary to reflect income clearly in normal situations and others are intended tax incentives which should be preserved.

3. BACKGROUND OF PROPOSAL

A. Situation under present law: tax shelters

"Tax shelters" are investment devices by which an individual obtains an immediate and usually substantial reduction in the amount of tax on income he already has and upon which he would but for obtaining the "tax shelter" have to pay tax. He thus in effect is investing the government's tax dollars rather than his own money. Such devices take advantage of basic tax accounting rules as well as intended tax incentives which contemplate some deferral of tax, but which need not be permitted to create an artificial loss.

The essence of a tax shelter is the deferral or postponement of tax on current income, accomplished by accelerating future deductions into the current taxable year. Under the present tax accounting rules, in a taxable year in which the taxpayer has already received substantial income in excess of that year's deductions, he can avoid paying tax on all or part of that income by making an investment, prior to the end of the year, which will produce income in succeeding taxable years, but which will in the current year produce only deductions in the form of an artificial "loss".

In such cases, the major emphasis may be on the tax "loss" and the resulting tax saving on the participant's existing income from other and unrelated sources. Since the anticipated tax saving on the participant's other income may equal or exceed the amount of his cash investment in the "tax shelter", economic flaws in the investment itself may be ignored because he is investing tax dollars.

B. Tax accounting concepts

Fundamental to our federal income tax system is matching income with expense to arrive at a reasonable reflection of net taxable income in the year.

A current expense is deductible in full in the taxable year paid or incurred because it is necessary to produce that year's income and is usually consumed in the process. Other expenditures will by their nature precede the receipt of income they produce and may produce income over a number of years in the future. These can properly be deducted in the future as the income comes in and the original investment is gradually consumed.

If it were possible to have in advance the benefit of hindsight, some costs might either be deducted in the current taxable year or be deducted in later taxable years. This would largely depend on how future circumstances develop. The amount of the expenditure would in any event be deductible and the only question is one of timing, i.e., in which taxable year.

Accordingly, since we have an annual tax return system and hindsight is not available clearly to reflect income in all cases, present law correctly provides some degree of flexibility in the timing of deductions. Experience has, however, shown that in the case of individuals some further limitation is necessary when deductions are accelerated to the point of grossly distorting income and creating artificial accounting losses.

Although some artificial accounting losses result solely from general tax accounting concepts which are to that extent being misused, it is also recognized that other artificial accounting losses may result from misuse of intended tax incentives of longstanding and major importance. All incentives will be retained under the LAL proposal, subject only to the reasonable limitation that any accelerated deductions be confined to the type of activity and income for which the tax incentive is provided and do not produce artificial accounting losses against unrelated income for which no incentive is intended. Within this framework of a reasonable matching of income and expense, the income tax system can successfully continue to be used as a means to provide major incentives to serve vital national goals.

Technical Explanation

1. BASIC FRAMEWORK OF LAL

LAL will not entail repeal of any tax accounting or accelerated deduction provision in present law. For example, the provisions in section 167 for accelerated depreciation of real estate, in section 263(c) for the option to expense the intangible drilling and development costs of oil and gas wells, and in sections 446 and 471 for the use of the cash method of accounting by farmers will remain unchanged. LAL will, instead, impose a general limitation *only* on the deduction of artifical accounting losses.

A. Identification of the amount of artificial accounting loss

The artificial accounting loss to which LAL will apply is that portion of any loss, attributable to an activity or related activities, which would disappear if the taxpayer had no accelerated deductions in the current year. An accelerated deduction is a deduction which clearly relates to some future expected profit and has little or no relation to income reported in the current year. Such deductions are in most instances obvious, but will from time to time be specifically identified by regulation where it appears they are being used as tax shelters. Except in cases identified by regulation, interest will not be treated as an accelerated deduction because of the difficulty in tracing the uses of money.

More precisely, an artificial loss is the amount by which—

(i) the accelerated deductions for the taxable year exceed,

(ii) the associated net related income for the taxable year.

For the purposes of LAL, "net related income" is computed without regard to the accelerated deductions. The accelerated deductions will then be fully allowed up to the amount of net related income. Only the excess constitutes an artificial accounting loss.

B. Treatment of the amount of the artificial accounting loss

(i) The amount of an artificial accounting loss will not be allowed as a deduction in the taxable year and will be required to be deferred.

(ii) The amount of a deferred artificial accounting loss will be added to a Deferred Loss Account to be taken as a deduction in a succeeding taxable year against the first net related income (in excess of that year's accelerated deductions) or to be taken into account upon sale or other disposition of the property to which the deferred loss is attributable.

Accelerated deductions deferred under LAL and added to the Deferred Loss Account will not alter the normal adjustments made to the basis of property in that taxable year. Thus, for example, notwithstanding the fact that accelerated depreciation in excess of straight-line depreciation may have been deferred and added to the Deferred Loss Account, the full amount of depreciation computed in accordance with the applicable method of depreciation adopted by the taxpayer will be treated as allowed or allowable for the purpose of adjusting the basis of the property under section 1016.

2. ILLUSTRATIONS OF THE LAL PROPOSAL

The following paragraphs illustrate the application of the general principle of LAL in accounting for income and expense in the areas of most widespread interest to taxpayers.

A. Application of LAL in accounting for income and expense of oil and gas wells

LAL will apply to an artificial accounting loss attributable to the deduction of intangible drilling and development costs of oil and gas wells which costs the taxpayer elects to expense under section 263(c) for the taxable year. These costs will in general be deductible only to the extent of net related income. Since the tax law now reflects the policy of providing incentives for oil and gas drilling, the class of related income under LAL will include mineral income from *all* oil and gas properties and will not be confined to the property to which the deductions are attributable. For this purpose, net related income will be calculated without regard to the percentage depletion deduction allowed by secton 611 (but with regard to cost depletion if taken) and will thus be substantially the same as the total for all properties of "taxable income from the property" under section 613(a).

The LAL limitation will apply to all wells unless the well has been determined to be unsuccessful and abandoned by the end of the taxable year and the costs would be deductible in that year under section 165 (i.e., a so-called "dry hole"). Also, any deferred artificial accounting loss attributable to a "dry hole" abandoned in a succeeding taxable year will be allowable in full in that succeeding year against any category of income.

Example of Artificial Loss

The taxpayer has earnings in the amount of $100,000 in 1974. He also invests in an oil drilling fund to begin in the latter part of 1974. For that year, his share of the IDC expenses is $20,000. In 1974, he has no net related income since he is not principally and regularly engaged in the oil business and the fund has just begun drilling. Any oil income will be received in 1975 or thereafter. Under present law, he has a $20,000 "loss" deduction against his earnings. Under the LAL proposal, he will have a $20,000 artificial accounting loss which will be added to the Deferred Loss Account to be deducted in the future against net related oil and gas income.

B. Application of LAL in accounting for income and expense of personal property under a net lease

In the case of personal property under a net lease as defined in section 57(c), LAL will apply to an artificial loss attributable to—

(i) accelerated depreciation under section 167 in excess of straight-line depreciation, or

(ii) amortization (such as under section 184) in excess of straight-line depreciation.

The class of related income under LAL will include the rental income for the taxable year produced by the property under the lease.

C. Application of LAL in accounting for income and expense of real estate

In the case of improved real estate held for rental or held primarily for sale as described in section 1221(1), LAL will apply to an artificial loss attributable to—

(i) the amount of accelerated depreciation under section 167 in excess of straight-line depreciation,

(ii) the amount of amortization under section 167(k) for rehabilitation housing in excess of straight-line depreciation, or

(iii) the amount of otherwise deductible construction period or "pre-opening" costs which by their nature precede the income to which they relate, including:

a. The amount of interest deductible under sections 163 and 162 or 212 and allowed under section 62 in computing adjusted gross income;

b. The amount of state, local and foreign taxes deductible under sections 164 and 162 or 212 (other than under section 164(3) and (5)) and allowed under section 62 in computing adjusted gross income, and

c. Other costs deductible under section 162 or 212 and allowed under section 62 in computing adjusted gross income, such as management, brokerage and legal fees, insurance, advertising, and transfer and recording fees.

The construction period costs include costs paid or incurred during or attributable to the period of construction either with respect to the constructed property or the associated land.

In the case of residential real estate (i.e., residential rental property as defined in section 167(j)(2)(B) and housing held primarily for sale), the class of related income will include both rental income from all residential real estate, plus the sales income from housing held primarily for sale. This broader definition of related income gives effect to the more liberal legislative policy reflected in section 167(j) which provides the incentive of full accelerated depreciation for residential real estate. That same policy was not applied to nonresidential real estate.

Correspondingly, the class of related income for nonresidential real estate will include only the rental income (and sales income if held primarily for sale) from the particular property to which the accelerated deductions are attributable. In general, each building will be treated as a separate property for this purpose. However, where one or more buildings on a single tract or parcel (or contiguous tracts or parcels) are managed and operated as a unit, all such buildings will be treated as a single property.

Example of Artificial Loss

The taxpayer has earnings in the amount of $100,000 in 1974. He also invests in Apartment Building A and for the taxable year 1974 his share of the rents and deductions (which share does not include any construction period costs) is as follows: $60,000 gross rent; $46,000 interest and operating expenses; $12,000 straight-line depreciation; and an additional $12,000 of accelerated depreciation (in excess of straight-line). Under present law, he has a tax "loss" of $10,000 deductible against his earnings. Under LAL, the *net* related income is $2,000 (gross rents of $60,000 minus total interest, expenses and straight-line depreciation of $58,000). Thus, the additional accelerated depreciation of $12,000 is limited to the net related income of $2,000. The excess $10,000 of additional accelerated depreciation is an artificial accounting loss and is added to the Deferred Loss Account to be deducted against future net related income from residential real estate.

D. Application of LAL in accounting for income and expense of livestock or farm investments

The ordinary farmer will be unaffected by the LAL proposal. Most farmers will be outside the scope of the provision because (1) they have a profit, not a loss, from their farming operations, (2) they do not have non-farm income, or (3) they have not substantially increased the level of their farming operations during the year.

The principal accelerated deductions in farming are deductions for prepaid feed or other expenses relative to crops or livestock which will not produce income until a future time. These are items which recur from year to year, and are often in the nature of inventories. Thus, the benefits of an accelerated deduction in the taxable year are typically offset by the loss of deductions which are accelerated into prior years. Since it is only the net *increase* in accelerated deductions which can create a loss distortion, the rule will be inapplicable unless there has been a major increase during the year in the level of operations or of investments of a type which would be capitalized or inventoried in a business other than farming. The fact that a taxpayer farms substantially the same acreage without a major change in the nature of his operation will ordinarily be accepted on audit as evidence that a loss, if it exists, is not an artificial loss.

That will not suffice if there is an abnormally large and material expenditure in the nature of an accelerated deduction, but even then, in the case of inventory-type expenditures, up to a twenty percent variation from the prior year's expenditures of the same nature will be deemed normal, and greater variations may be justified by the facts and circumstances. If a loss should be suspended by the LAL proposal, it may, of course, be deducted against farming profits in subsequent years.

In the case of farming, income from all farming units in which the taxpayer is personally engaged as a trade or business, (as distinguished from units in which he is a passive investor) will be treated as a single related class.

3. THE DEFERRED LOSS ACCOUNT UNDER LAL

A Deferred Loss Account will contain the accumulated artificial losses for each class of associated deductions and related income. Where all properties in an investment category are permitted to be aggregated under LAL—as in the case of oil and gas or residential real estate—only a single consolidated account will be required for that category.

A. Basic operation of deferred loss account

The amount of "artificial accounting loss" for a taxable year, (i.e., the amount by which the accelerated deductions exceed the associated net related income computed without regard to the accelerated deductions), will be added to the corresponding Deferred Loss Account.

In any succeeding taxable year in which the net related income exceeds the accelerated deductions for the taxable year, an amount equal to such excess will be *subtracted* from the Deferred Loss Account and allowed as a deduction in that year.

Example of Deferred Loss Account

(i) The taxpayer has two residential apartments in 1974; apartment Building A acquired in 1966 to which LAL does not apply and Apartment Building B to which LAL does apply.

(ii) For the taxable year, there are the following deductions and related income:

a. Building A—$260,000 of gross rent; $235,000 for interest, operating expense, and straight-line depreciation; and an additional $10,000 of accelerated depreciation (in excess of straight-line). The net related income from Apartment Building A is $15,000. Since LAL does not apply to Building A, the accelerated depreciation in excess of straight-line is fully allowable both in arriving at adjusted gross income and in computing net related income.

b. Building B—$150,000 of gross rent (not rented all year); $100,000 of interest and taxes during construction and other construction period costs; $140,000 other interest, operating expenses and straight-line depreciation; and an additional $30,000 of accelerated depreciation (in excess of straight-line). The net related income for Building B is $10,000, i.e., gross rents of $150,000, less $140,000 for other interest, operating expense and straight-line depreciation, but without allowance of the $100,000 of construction period costs or the additional $30,000 of accelerated depreciation.

c. The total net related income in the taxable year for all residential real estate is $25,000, i.e., $15,000 for Building A and

$10,000 for Building B. The total accelerated deductions on Apartment Building B is $130,000, i.e., construction period costs of $100,000 and additional accelerated depreciation of $30,000. The artificial accounting loss is $105,000. This amount is added to the Deferred Loss Account to be deducted in the future against net related income from residential real estate.

(iii) In a succeeding taxable year, Building A produces net related income of $60,000 and Building B has net related income of $10,000 (computed without regard to accelerated depreciation of $35,000 in excess of straight-line). Thus, $35,000, the amount by which the total net related income of $70,000 for both buildings exceeds the additional accelerated depreciation of $35,000 in the taxable year, is subtracted from the Deferred Loss Account and allowed as a deduction in the taxable year.

B. Operation of the Deferred Loss Account when there is a sale or other disposition

In a taxable year in which there is a sale or other disposition of the property the proceeds of which do not constitute related income under the general definition, if there is a net balance in the corresponding Deferred Loss Account, the portion attributable to the property sold or disposed of will in general be subtracted from the Deferred Loss Account and added to the adjusted basis of the property. Proceeds from the sale of a capital asset or a section 1231 asset would, for example, not constitute related income.

In the case of a capital asset (where the basis would not have been reduced by an accelerated deduction), if increasing the basis by the allocable share of a Deferred Loss Account would create or increase a capital loss on the sale, the allocable share of the Deferred Loss Account shall instead be allowed as a deduction in the taxable year.

In general, the portion of the Deferred Loss Account attributable to a particular property sold or disposed of during the taxable year will be—

(i) the amount in the Deferred Loss Account, but not in excess of,

(ii) the net additions to and subtractions from the Deferred Loss Account with respect to that property.

4. EFFECTIVE DATES; TRANSITION RULES

The principle of the LAL proposal will be generally applicable to taxable years beginning after December 31, 1973, but only with respect to transactions entered into or commitments made after April 30, 1973.

The following will be excluded from the application of LAL for all taxable years:

(i) *Real estate.* Accelerated depreciation or amortization on real estate acquired or constructed by the taxpayer prior to May 1, 1973, or acquired or constructed after April 30, 1973, pursuant to a commitment binding on April 30, 1973, and thereafter; and construction period costs paid or incurred prior to May 1, 1973 or paid or incurred after April 30, 1973 pursuant to a commitment binding on April 30, 1973, and thereafter. In addition, whether or not the foregoing requirements are met, housing projects which will receive certain kinds of governmental subsidy assistance will be unaffected. This temporarily preserves the status quo with respect to federal housing programs that depend on such subsidies as approval of new projects has been suspended by the Departments of Agriculture and Housing and Urban Development.

(ii) *Minerals.* Intangible drilling and development costs paid or incurred prior to May 1, 1973, or paid or incurred after April 30, 1973 pursuant to a commitment binding on April 30, 1973, and thereafter.

(iii) *Farming.* All expenditures paid or incurred prior to May 1, 1973, or paid or incurred after April 30, 1973, pursuant to a commitment binding on April 30, 1973, and thereafter.

(iv) *Net Leases.* All net leases of personal property (as described in section 57(c)) entered into prior to May 1, 1973, or after April 30, 1973 pursuant to a commitment binding on April 30, 1973, and thereafter.

In the case of the following costs paid or incurred after April 30, 1973, and not excluded by the foregoing, LAL will also apply for taxable years beginning before January 1, 1974 to:

(i) Intangible drilling and development costs of oil and gas wells;

(ii) Construction period costs for real estate; and

(iii) Feed for consumption by livestock in a feedlot.

5. SPECIAL RULES; PARTNERSHIPS, SUBCHAPTER S CORPORATIONS, TRUSTS, AND ESTATES

A. Partnerships

A partnership will determine its net related income (in excess of its accelerated deductions) or its artificial accounting loss (accelerated deductions in excess of net related income) attributable to partnership property and report to each partner his distributive share of the excess net related income or the artificial accounting loss in a manner similar to the way in which other partnership items are presently reported on Schedule K–1 of the partnership return.

The partner will be entitled to treat his distributive share of the LAL item as though he owned a comparable interest in the partnership property outright. Hence, a partner will offset an artificial accounting loss from property he owns individually against his distributive share of excess net related income from his partnership, or similarly will offset against excess net related income from property he owns individually his distributive share of an artificial accounting loss from his partnership.

B. Subchapter S corporations

Income (other than net related income and accelerated deductions subject to LAL) required to be included in a shareholder's gross income will continue as under present law to be characterized as dividend income. In addition, a Subchapter S corporation will determine its net related income (in excess of the accelerated deductions) or its artificial accounting loss (accelerated deductions in excess of net related income) and will report to each shareholder his ratable share. A shareholder of a Subchapter S corporation will be entitled to treat his ratable share of the LAL item as though he directly owned a comparable interest in the property similar to the manner described for a partner.

C. Trusts and estates

LAL will apply to trusts and estates, and, in cases in which it does apply, LAL will defer the deduction of artificial accounting losses as in the case of individuals. This may increase the trust's or estate's distributable net income under section 643(a) and the amounts affected by subparts B, C and D of Subchapter J. Deductions deferred will be added to a Deferred Loss Account maintained by the trust or estate to be used to offset net related income of the trust or estate in succeeding taxable years.

III. Tax Simplification—Form 1040–S

General Explanation

1. SUMMARY OF PROPOSAL

This proposal adopts a new approach to simplification of the tax laws—it starts with the individual tax return itself and then works back to the legislative changes needed to achieve a simplified return. This approach produced the draft of a proposed form, 1040–S. If the necessary statutory changes are made, 1040–S will achieve very substantial simplification for most taxpayers who itemize their deductions. Form 1040–S is an *approach* to tax simplification for the average taxpayer. Further study by the Treasury Department, the Congress, or the public may disclose desirable refinements. The proposal also includes simplifying provisions affecting all individual taxpayers—even those not using Form 1040–S. This proposal is a long first step, but still only a step, toward satisfying the urgent need for simplification of our tax system.

There are four important elements of this simplification proposal:

(a) A new "Miscellaneous Deduction Allowance" of $500 (the "$500 MDA"). This will replace certain itemized deductions which affect many or most taxpayers but are usually small in amount, *e.g.*, the gasoline tax deduction, certain medical and casualty deductions, and certain expenses of employees and investors.

(b) The repeal or simplification of certain complicating provisions affecting large numbers of taxpayers—for example, the sick pay and dividend exclusion provisions are repealed and the retirement income credit and child care provisions greatly simplified.

(c) The use of a "linear" Form 1040–S for the average taxpayer, which progresses in a straight line from items of income through items of deduction to a tax computation and which eliminates all but a very few transfers back and forth from subsidiary schedules.

(d) All taxpayers having taxable incomes of less than $20,000 must use tax tables based on taxable income. The present tables are based on adjusted gross income.

A taxpayer electing to use the long Form 1040 will not be deprived of any of the substantive benefits available to those using Form 1040–

S, except that he will have to complete a more complicated return. Most itemizers will elect to use the Form 1040–S because of the simplicity that it will provide. It is anticipated that many taxpayers for whom the complexity of the existing long Form 1040 necessitates resort to return preparers will be able to prepare their own Form 1040–S. With the Form 1040–S, IRS will give taxpayers a checklist or worksheet which will enable them to determine readily whether they should be using the long form instead of Form 1040–S. Where past returns indicate that a taxpayer is in one of the relatively limited groups which should use the long Form 1040, IRS will send him the long Form instead of 1040–S.

The Internal Revenue Service will also attempt to simplify the language and structure of the long Form 1040 and to some extent the Short Form 1040A.

2. PURPOSE AND EFFECTS OF PROPOSAL

Internal Revenue Service studies show that the itemization of deductions by some 30 million individuals who do not use the standard deduction causes the greatest complication in the individual tax. The most troublesome deductions for individuals are (a) those which involve numerous small bills and receipts which are hard to keep track of and (b) those which are difficult to classify, summarize, and compute correctly on the return. The studies also showed that most itemizers had income from a small number of common sources and itemized to obtain deductions for mortgage interest and property taxes on their home. Most of the highly complicated provisions and instructions in the long Form 1040 and its 40 supporting schedules never affect most taxpayers. Form 1040–S is for these average taxpayers. It is estimated that over 20 million taxpayers now using the 1040 can switch to Form 1040–S.

The simplification proposal does not alone affect taxpayers able to use Form 1040–S since most of the proposed changes also effect significant simplification even for those using the long Form 1040. The search for precise equity among taxpayers has resulted in great complexity. This complexity produces two undesirable effects. First, a kind of "gamesmanship" often develops once a taxpayer has found that his itemized deductions exceed the standard deduction—he goes to great lengths to find every last dollar of itemized deductions, however ill-documented, questionable in nature, or insignificant in amount. Second, and sometimes as an aspect of his "gamesmanship", a taxpayer may seek out a tax return preparer to ferret out every last possible itemized deduction which he fears he might overlook alone.

The existing deductions for charitable contributions, mortgage interest and property taxes on the home have generally had salutary effects in encouraging charitable giving and home ownership while the deduction for state and local income and sales taxes takes into account the taxpayer's diminished ability to pay the sharply progressive Federal income tax. The major premise of this simplification proposal is that these basic features of our existing system of taxing individuals should be retained but that certain other provisions should be repealed or drastically amended in the interest of simplicity. To carry out this objective, the Internal Revenue Service isolated several provisions which affect many taxpayers, cause considerable difficulty in the tax preparation and auditing processes, and generally do not significantly affect a taxpayer's ability to pay taxes or involve substantial incentives. Thus, the proposal gives all taxpayers who itemize a fixed $500 Miscellaneous Deduction Allowance in lieu of certain present itemized deductions.

Since most taxpayers will no longer need be concerned that they will overlook various "small ticket" deductions, it is expected that more taxpayers will prepare their own Form 1040-S returns. No taxpayer need worry about ovelooking deductions, since the only deductions allowed on either the 1040 or 1040-S will be the ones specifically listed on each of the forms with the $500 Miscellaneous Deduction Allowance replacing all others. The instructions will carefully explain what type of items may be included under each category of deductions.

The statutory changes necessary to effectuate the Form 1040-S proposal will result in a revenue loss of approximately $400 million.

3. BACKGROUND OF PROPOSAL

a. Situation under present law

(*i*) *Gasoline and miscellaneous taxes*

Under present law an itemizer may deduct gasoline taxes and certain miscellaneous taxes. Most taxpayers use the gasoline tax tables. However, many taxpayers do not keep track of the number of miles that they drive during a given year, a fact that should be known, but is more usually guessed, in using these tables. Taxpayers having four cylinder cars must divide the table amount in half to compute their deduction. If during the year the state changes the gasoline tax rate, then the tax must be computed separately for the miles driven at each rate, and of course different rates apply for interstate driving.

(*ii*) *Miscellaneous expenses*

Under present law an itemizer may deduct certain investment and business expenses. The specific items of expenses in these two categories are not delineated in the Code. The taxpayer must keep track of innumerable small expenses. Examples of typical investment expenses that may in some cases be deductible are expenses for investment periodicals, safe deposit boxes, financial newspapers and investment advisory services. Examples of employee business expenses that may in some cases be itemized are professional dues and subscriptions, union dues, work clothes and small tools, certain educational expenses and home office expenses. Tax return preparation fees may also be taken as an itemized deduction.

(*iii*) *Medical and casualty loss deductions*

Under present law medical and casualty loss deductions are treated separately. The deduction for medical expenses presents a formidable hurdle for most taxpayers since several steps are involved. First, the taxpayer may deduct one half of his medical insurance up to a maximum deduction of $150 regardless of the amount of his adjusted gross income. Secondly, the taxpayer must add up all his bills for medicine and drugs not compensated by insurance; only the excess of these expenses over 1 percent of his adjusted gross income is carried forward in making his general medical expense computation. Thirdly, he must add his medicine and drug expenses in excess of the 1 percent floor and the remainder of his medical insurance which was not deductible under the first step to his general medical expenses not compensated by insurance; his medical deduction is the excess of this total amount over 3 percent of his adjusted gross income plus his medical insurance deduction computed under the first step. Very substantial definitional problems are confronted by the taxpayer, the Internal Revenue Service, and even the courts in determining what constitutes medical insurance, drugs, and medical expenses.

Nonbusiness casualty and theft losses are deductible only to the extent that the loss arising from each misfortune exceeds $100. The casualty loss provisions involve significant problems as to what constitutes a casualty and as to the application of the $100 limitation.

(*iv*) *Dividend exclusion*

Under present law an individual taxpayer is entitled to exclude up to $100 of qualifying dividends received from most domestic corporations. Complications result in determining what dividends qualify for this exclusion and in determining the exclusion on a joint return where each spouse is allowed to exclude up to $100 of his or her own dividends—the amount of the exclusion differs depending upon whether the stocks are owned by the husband only, by the wife only, or jointly.

(*v*) *Retirement income credit*

The extraordinarily complex retirement income credit was designed originally to put taxpayers not receiving Social Security or Railroad Retirement benefits on a par with recipients of those tax-free benefits. It is available generally to those taxpayers age 65 or older whose amount of current earned income and number of years worked would have made them eligible for Social Security or Railroad Retirement benefits had their earnings been subject to the respective taxes.

(*vi*) *Child care allowance*

Under present law a taxpayer may deduct certain household and child care expenses which are incurred to enable the taxpayer to be gainfully employed. The provisions also apply to similar expenses for the care of certain disabled dependents and spouses. Under present law the deduction is generally limited to an amount not greater than $400 per month; however, if the child care services are rendered outside the home (*e.g.*, in a day care center), the maximum deduction may be smaller depending on the number of children. Although there are many conditions, exceptions, and limitations in the present child care provisions, the requirements that the deduction and income limitations be computed on a monthly basis have given rise to the most criticism and recordkeeping and computational difficulties.

The current form for the child care deduction (Form 2441) is further complicated by the fact that disability payments (figured on a monthly basis) must be taken into account to reduce the deduction attributable to disabled dependents. Also, the existing phaseout provision requires that gross income exceeding $18,000 be divided in half before reducing the amount of the deduction (computed on a monthly basis).

(*vii*) *Sick pay exclusion*

Under present law, an employee may exclude from income any premiums for accident and health insurance plans covering personal injury or sickness of an employee which are paid by an employer. Benefits received under such plans and attributable to the employer's contribution are generally excludible from the employee's gross income under section 105(b) if they are for medical expenses, under section 105(c) if they are for a loss of a limb, or similar mishap, or are computed with reference to the nature of the injury without regard to the period in which the employee is absent from work, and under section 105(d) if such amounts are wage continuation payments (sick-pay).

The sick pay provisions are especially complicated since special rules apply depending on the amount of the weekly sick pay, the number of days the employee has been absent from work, the relationship between the sick pay and the employee's regular wages, and on whether the taxpayer was hospitalized.

(*viii*) *Optional tax tables*

Under existing law the Secretary or his delegate is required to prescribe optional tax tables which are used by individuals having

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adjusted gross income of less than $10,000; the tax tables are required to be based on the standard deduction. Since the Secretary or his delegate is not authorized to prescribe optional tax tables applicable to individuals itemizing their deduction or having adjusted gross income of more than $10,000, such individuals must use rate schedules which many taxpayers find difficult to use.

b. The need for a simple return

Under existing law only one return covers individual itemizers. Even an individual whose income is all from salary and interest and who wished to deduct only his mortgage interest and property taxes presently must use the long 1040 form, which is also designed to accommodate the taxpayer who has income and deductions from a wide variety of sources. The addition over the years of multitudinous special rules having relatively narrow applicability has further complicated the form and instructions; examples of these special rules and limitations are those applicable to items of tax preference, capital loss carryovers, and depreciation recapture.

c. The need for a miscellaneous deduction allowance

Under existing law once a taxpayer determines that his basic itemized deductions, such as interest and taxes, exceed his standard deduction, there is in effect no limitation on various miscellaneous deductions that are allowed as itemized deductions. Because many of these deductions are not obvious to the average taxpayer, he frequently turns to a tax return preparer. Regardless of who prepares the return, the result is that the itemizer must keep track of numerous receipts involving small amounts.

Technical Explanation of Proposal

1. MISCELLANEOUS DEDUCTION ALLOWANCE

a. In general

Each taxpayer who itemizes his deduction will be allowed a Miscellaneous Deduction Allowance of $500 ($250 in the case of a married individual filing a separate return); this $500 MDA may be viewed as substituting in a rough way for the following items, the tax treatment of which is changed:

1. The deduction for gasoline and certain miscellaneous taxes.

2. Medical expenses and casualty losses to the extent they would be deductible under present law but will not be deductible under the proposal because of the 5 percent of adjusted gross income limitation, discussed below.

3. Certain miscellaneous investment expenses and employee business expenses which are deductible as miscellaneous expenses under present law but which will be deductible only to the extent that they exceed $200 under the proposal.

The $500 MDA results in the simplification of the itemization of deductions that is exemplified on page two of the draft of Form 1040–S. The itemized deductions take only nine lines and it is possible to include the itemized deductions in the linear format of the basic return without generally requiring the transfer of totals from supporting schedules.

b. Gasoline and certain miscellaneous taxes

The proposal calls for the repeal of the deduction for gasoline and certain miscellaneous taxes. These deductions affect most taxpayers in a roughly similar manner. All states have gasoline taxes and most of them are levied at about 7 to 8 cents per gallon. The tax saving to the average taxpayer because of the deduction for gasoline taxes is generally small—even for the taxpayer or family who drove as much as 20,000 nonbusiness miles per year, the tax saving would be about $25 in most states if the taxpayer were in the 25 percent bracket. The gasoline tax table is the kind of provision applicable to almost all itemizers which appears formidable to many. The repeal of the gasoline tax deduction itself will have no bearing on the continuing ability to itemize gasoline taxes (whether directly or as part of a mileage figure) incurred in connection with the taxpayer's business, income producing, medical, or charitable activities.

c. Miscellaneous expenses—the $200 floor

Under the proposal the following types of expenses will be deductible as miscellaneous deductions only to the extent they exceed in the aggregate $200 and would be deductible under existing law:

(i) Section 162 expenses—such employee business expenses as union dues, work clothes, small tools, education expenses and home office expenses; and

(ii) Section 212 expenses—tax return preparation expenses and such investment expenses as the costs of financial newspapers, financial periodicals, investment advisory services and safe deposit boxes.

It is anticipated that any taxpayer seeking to deduct these expenses if they exceed $200 will have to use the long Form 1040.

The proposal does not change present law dealing with employee business expenses and moving expenses which are allowed as an adjustment to income; again, however, it would probably be necessary to require the use of the long Form 1040 to claim such adjustments.

d. Medical and casualty losses—5% floor

The amount of the MDA also takes into account the elimination of small medical expenses and casualty losses. Under the proposal the aggregate of medical and casualty losses are subject to a 5 percent of adjusted gross income floor. In addition to the simplicity achieved by lumping casualty and medical deductions, this change is justified because allowance of both items is based on the fact that both reduce the taxpayer's ability to pay taxes and are generally beyond his control. A dollar of medical expense reduces one's ability to pay in much the same way as a dollar of casualty loss. The 5 percent figure was chosen for the floor because it was felt to represent a level above which medical expenses and casualty losses truly become extraordinary and affect ability to pay tax. In the interests of simplicity the special treatment of medical insurance expenses and the special limitations on the deduction of medicine and drugs are eliminated. Under the proposal no distinction is made between medical insurance, drugs, and other types of medical expenses.

e. Effect of $500 MDA

In general for most taxpayers the $500 MDA will result in a greater tax saving than the tax savings which would result from the itemized deductions which are eliminated. Some taxpayers having high medical expenses, casualty losses or extraordinary gasoline or miscellaneous taxes, however, may find that the $500 MDA does not adequately compensate them for the changes in the deductibility of these expenses under the proposal.

2. OTHER STATUTORY SIMPLIFICATION

a. Repeal of dividends received exclusion

The dividends received exclusion of $100 (or $200 in the case of a joint return) has many salutary objectives and effects. For example, it mitigates somewhat the double tax paid directly and indirectly by the owners of corporations. It encourages stock ownership and provides some relief to the elderly who often have dividend income. On the other hand the dividend exclusion is presently the cause of considerable complexity in the tax return and instructions. This complexity causes a high incidence of error by taxpayers in reporting dividend income and has hampered computer verification and auditing of this income by the IRS. The repeal of the dividend exclusion would significantly simplify the reporting of dividends and would facilitate computer verification and auditing by the Internal Revenue Service. Elimination of the dividend exclusion would also equate the tax treatment of dividend and interest income. The actual tax saving of the dividend exclusion to the average taxpayer is small. On balance, the advantages of simplification take precedence and the exclusion is eliminated under the proposal.

b. Age credit

The attempt to parallel social security conditions and limitations has made the retirement income credit one of the most complex provisions of existing law. Almost 4 out of 10 taxpayers eligible for the credit either don't claim the credit or make errors in computing the amount allowed. Taxpayers claiming the credit must make the computations on a separate schedule (Schedule R) which occupies a full page in the tax return packet, with 19 separate items, some of which involve computations in three separate columns.

With respect to taxpayers aged 65 or over, the proposal will replace the existing retirement income credit with an age credit. The age credit will be computed as a percentage of a fixed dollar amount (regardless of the amount of retirement or other income) reduced only by amounts received as Social Security or Railroad Retirement benefits. The prior earned income requirement provided in section 37(b) will be eliminated. The definition of retirement income provided in section 37(c) will be eliminated.

The computation of the age credit would start with fixed dollar amounts depending upon the status of the taxpayer—$1,500 for a single taxpayer who is age 65 or older, $1,500 for taxpayers filing a joint return where one spouse is age 65 or older, $2,250 for taxpayers who are filing a joint return with both spouses age 65 or older, and $1,125 for a married taxpayer age 65 or older who is filing a separate return. These fixed dollar amounts will be reduced only by Social Security and Railroad Retirement benefits; the earned income reduction provided in section 37(d)(2) would be eliminated.

With the elimination of the prior earned income rule, the earnings phaseout, and the limitation of the base to retirement income, the age credit will no longer be tied to the social security rules. Consequently, it is anticipated that the age credit will not be adjusted in the future when social security benefit levels are adjusted.

c. Child care allowance

Under the proposal the monthly limitation of $400 will be eliminated and replaced by an annual limitation of $4,800 regardless of the number of dependents involved.

If the actual child care expenses for the year were less than the $4,800 ceiling, only the lesser amount will be deductible. An overall limitation will be imposed—the child care deduction will in no event exceed the earned income of the lesser compensated spouse where both work. The distinction in present law between care in the home and care outside the home will be abolished. The adjustments in section 214(e)(5) for disability payments and other income will also be eliminated in the interest of simplicity. Finally, the amount of the allowance for the year will be subject to a simpler phaseout—it will be reduced dollar for dollar for all adjusted gross income in excess of $22,800. No change would be made in the definition of "qualifying individual" in section 214(b)(1).

The simplifying effect of these changes is readily illustrated by comparing proposed Form 1040-S General Schedule, Part C, with Form 2441.

d. Repeal of sick pay exclusion

The exclusion under present law from the gross income of the employee of certain premiums paid by the employer for accident and health insurance plans when combined with the exclusion for the benefits received by the employee results in a double tax benefit for the same item. The proposal would eliminate this double benefit by including in an employee's income contributions made by an employer to accident and health insurance plans or disability plans in the year in which the contribution is made.

Although the present sick pay exclusion was enacted with worthwhile objectives in mind, limitations, conditions, and exceptions had to be grafted onto them in order to prevent large revenue losses and abuses; the result is that these provisions are incomprehensible to the average taxpayer. Although one may sympathize with a taxpayer who is out sick from work, no justification appears for treating the income which he receives any differently from the income of another taxpayer who must work full time to earn in wages the same level of income that another receives in sick pay benefits. In general, both persons may have comparable ability to pay taxes. The proposal would eliminate the sick pay exclusion but would allow the employee to exclude from his gross income the contributions made to the wage continuation plan by his employer.

3. SIMPLIFICATION OF THE FORM ITSELF

a. Form 1040-S

Under the proposal the Secretary or his delegate will prescribe a simplified form which could be used by taxpayers having relatively simple types of income and deductions. The Secretary or his delegate will prescribe rules as to which taxpayers are disqualified from using the simplified form because of their special status or the type of income, deductions, or credits that they have. As the Internal Revenue Service gains experience with the use and auditing of this form, the qualifications as to the use of the form may be restricted or liberalized consistent with the general objective of keeping the form as simple as possible for millions of itemizers to use.

It is anticipated that the simplified form will be similar to the draft Form 1040-S. Form 1040-S achieves simplicity in several ways. Because many of the special technical rules applicable to a small percentage of taxpayers are eliminated from the form, it is possible for the form to proceed in a more logical fashion from income to deductions to tax computation and credits. Secondly, the simplification of many statutory provisions largely permits the elimination of the subsidiary scheduling of items characteristic of the existing Form 1040. The transfer of numbers from subsidiary schedules is thereby greatly reduced. The scheduling of charitable contributions deductions can be simplified without statutory changes. The key change in the form is that the taxpayer is required to state separately those contributions in cash and property for which he does not have, respectively, a canceled check or a receipt estimating value. Because many taxpayers having special status or types of income, deduction, or credit simply will not be able to use Form 1040-S, it has been possible to simplify the language of the form itself and to delete many of the cross references made in the present form. Form drafting is a continual process and the draft Form 1040-S is merely the latest stage in that process; experience may dictate that other changes must be made.

b. Taxpayers who can't use Form 1040-S

The following is a list of the principal categories of taxpayers who will be disqualified from using Form 1040-S:

(i) Self-employed taxpayers.

(ii) Partners.

(iii) Farmers.

(iv) Shareholders of Subchapter S corporations.

(v) Beneficiaries of estates or trusts.

(vi) Recipients of royalties.

(vii) Persons having gain or loss from the sale of capital assets other than stock or securities.

(viii) Persons subject to the proposed Minimum Taxable Income provisions.

(ix) Persons subject to the proposed Limitation on Artificial Accounting Losses.

(x) Employees required to pay certain social security taxes not collected or paid by the employer.

(xi) Persons having investment credit recapture.

Further additions to or deletions from this list may be made before the Form 1040–S is adopted. The list does not cover those taxpayers who will choose not to use Form 1040–S even though they would not actually be prohibited from using the form. For example, an outside salesman having adjustments to income for travel and other business expenses will generally choose to use the long Form 1040. Also, persons having medical and casualty deductions in excess of 5 percent of their adjusted gross income or having miscellaneous business expenses or investment expenses of more than $200 will not use Form 1040–S. High bracket taxpayers wishing to take the political contributions deduction instead of the credit will choose to use the long Form 1040.

c. Relationship to "long" Form 1040

Taxpayers disqualified from using Form 1040–S or desiring to claim deductions, credits, or benefits not permitted on Form 1040–S will continue to use the long Form 1040. The proposed statutory changes apply to the long form as well; thus, a person is entitled to the $500 MDA even though he itemizes his deductions on the long Form 1040. Miscellaneous investment expenses and employee business expenses in excess of the $200 floor will be additional itemized deductions on the long Form 1040.

4. MANDATORY TAX TABLES

Under the proposal, section 3 of the Code would be amended to authorize the Secretary or his delegate to prescribe tax tables based on taxable incomes of up to $20,000. All taxpayers having taxable incomes of less than $20,000 will be required under the proposal to compute their tax based on the use of the tables. This rule applies whether the taxpayer is using Form 1040A, Form 1040–S or the long Form 1040. In order to arrive at taxable income, all such taxpayers will subtract from adjusted gross income the sum of:

(i) their dependency exemption deductions, and
(ii) their standard deduction or itemized deductions.

If their taxable income is less than $20,000, they will refer to the tax tables to find their tax. Since the tax tables will not have to specify different taxes depending on the number of exemptions, and will not be affected by whether the taxpayer has already taken the low income allowance or the percentage standard deduction, it will be possible to produce the entire tax table on two printed pages instead of the formidable six fine print pages presently required for the 12 Optional Tax Tables.

With the elimination of the Optional Tax Tables based on adjusted gross income and the number of dependents, Form 1040A filers will have to compute and subtract their standard deduction and personal exemptions from their gross income to arrive at taxable income upon which the new tables will be based. Although this change causes a few additional arithmetical steps for persons using Form 1040A, the IRS anticipates that the incidence of error will be less than that caused by the present tax tables system, under which a taxpayer has to select one of 12 tables depending on the number of dependency exemptions that he has claimed.

Taxpayers whose taxable incomes exceed $20,000 would continue to compute their tax using the tax rate schedules.

IV. Property Tax Credit for the Elderly

General Explanation

1. Summary of Proposal

Under the proposal, low and middle income persons age 65 or over would be allowed a credit against their federal income tax in cases where the real property taxes that they pay on their principal residence are excessive in relation to their income. The credit would be allowed for the amount of real property taxes in excess of 5 percent of household income, subject to the limitation that the total credit could not exceed $500.

Those who rent instead of owning their homes would also be allowed a credit, subject to the same 5 percent floor and $500 maximum. For this purpose, renters would be considered to have paid real property taxes in an amount equal to 15 percent of the rent paid.

The restriction of the credit to low and middle income persons would be effected through a phase-out of the credit for taxpayers with household incomes in the range between $15,000 and $25,000. Under the phaseout, the maximum credit of $500 would be reduced by 5 percent of household income in excess of $15,000, so that a taxpayer with household income of $25,000 or more would get no credit.

The credit would be refundable. That is, a taxpayer would be entitled to a payment in the amount by which the credit exceeded any tax that might be due. Thus, a taxpayer with no taxable income would receive a payment in the full amount of the credit.

2. Purpose and Effect of Proposal

The proposed property tax credit is designed to relieve the excessive property tax burden now borne by many of our low and middle income elderly. While the burden of property taxes is a matter of increasing concern to all of our citizens, it falls with particular force upon elderly taxpayers. The Advisory Commission on Intergovernmental Relations estimates that in 1970 the average homeowner paid about 3.4 percent of household income in property taxes,[1] while elderly homeowners (age 65 or older) paid on the average about 8.1 percent. Elderly homeowners with less than $2,000 income paid an average of 16.6 percent of family income, and in the high-tax north-

[1] This is the median, which is considered by the ACIR to be most representative of the average burden on all taxpayers. The mean is 4.9 percent.

east region such homeowners paid more than 30 percent of their meager income in property taxes. Elderly renters are also affected; many are paying an excessive portion of their income in rent.

In scope and distribution this excessive property tax burden is a national problem. The imposition of excessive property taxes on the elderly undercuts social security and other federal programs designed to provide retirement benefits, as well as a minimum of security for the aged.

While many states have adopted measures to deal with this problem, the state response has generally proved insufficient. Fourteen states have adopted state-financed tax rebate provisions (called "circuit-breakers") that are specifically designed to relieve property tax overload situations. Only seven of these provide full coverage for renters, and the fourteen states vary widely in the amount of relief afforded. For example, low income ceilings ($6,000 or less) in nine of the fourteen states deny relief entirely to the large number of middle income elderly now paying excessive property taxes.

For most of our low and middle income elderly homeowners, adoption of the proposal would mean that their property tax burden would be limited to 5 percent of their income, broadly defined to include items of income that are nontaxable but are nevertheless part of a household's economic income. For example, an individual with income of $2,000 and property taxes equal to 30 percent of income ($600) would be entitled to the maximum credit of $500 ($600, less 5 percent × $2,000). In some cases, the $500 limitation on the maximum allowable credit would mean that not all of an individual's real property taxes in excess of 5 percent of his income would be rebated, but even in these cases the proposed credit would provide very substantial relief from excessive property tax burdens.

Equivalent relief would be afforded under the proposal to elderly renters. Available information from real estate assessors office's and national income statistics indicates that the amount of real property taxes paid on rented homes and apartments averages about 15 percent of rental value. The proposed credit would accordingly treat renters as having paid property taxes equal to 15 percent of their rental payments. In practice, elderly renters would become eligible for a property tax credit when their rental payments exceeded one-third of their income. For example, an individual with $3,000 in income and a monthly rent of $100 would be deemed to have paid $180 in property taxes ($100×12×15 percent) and would receive a credit of $30 ($180, less 5 percent ×$3,000). Had the individual paid annual rent of only $1,000 (one-third of income), no credit would have been allowable.

3. TECHNICAL EXPLANATION

A. Persons eligible for the credit

In general, all citizens and residents of the United States who have attained the age of 65 before the close of the taxable year would be eligible, subject to the phaseout for household incomes in excess of $15,000, to receive the credit for excessive property taxes. But in order to prevent duplication of other forms of relief, the credit would not be made available to persons who are welfare recipients. Specifically, persons who receive financial assistance (as distinguished from other forms of welfare assistance, such as free medical care, and from unemployment benefits) under a state plan for public assistance to the poor, blind, or aged would be ineligible for the credit.

In the case of certain other persons who would technically be eligible for the credit, the credit would often not be available in fact because all or part of their rent or property tax payments would be disregarded in computing the amount of qualifying real property taxes and equivalent rent on which the credit would be based. This provision, which would affect persons living in publicly-supported housing or in tax-exempt housing, is discussed more fully below.

B. Credit base

The credit would be based on the amount of "qualifying real property taxes" and "rent constitutiing real property taxes" paid or accrued by the eligible taxpayer or his spouse during the taxable year with respect to such taxpayer's principal residence. In general, "qualifying real property taxes" would be all real property taxes imposed by a state or a political subdivision of a state, or by the District of Columbia, and would include, in the case of a tenant-stockholder in a cooperative housing corporation, the tenantstockholder's proportionate share of taxes paid or incurred by such corporation.

The definition of the credit base in the case of renters presents particular difficulties in view of the great disparities that may exist in the services or other consideration provided in exchange for amounts denominated as "rent" by the parties. Thus, in one case a renter may receive only the bare premises, with perhaps some major appliances. In another case, such as a retirement home, the payment of rent may entitle the tenant to full board and complete medical care. Moreover, practices vary widely with respect to whether utilities are included in rent or are paid separately, and the cost of utilities will often be quite substantial in relation to the total cost of occupancy. It is accordingly necessary to provide that in certain cases sums denominated as "rent" must be allocated between amounts that should be considered true rent for purposes of determining the credit base and amounts that will not be so considered. Under the proposal, "rent constituting real property taxes" would be defined as being 15 percent of rent paid at arm's-length with respect to the individual's principal residence, exclusive of charges for any utilities or services (other than incidental services) furnished by the landlord as a part of the rental agreement (whether expressly set out in the rental agreement or not). The definition has been drawn so as to minimize the number of cases in which an allocation will be required. Thus, it is intended that no allocation would be required with respect to normal furnishings. Similarly, no allocation would be required with respect to the provision of incidental services that are supplied in connection with the management of an entire building or development, such as central heating or air conditioning, incinerator service, guard service, central telephone service, elevator service, recreational or social facilities, or maintenance of buildings or grounds. On the other hand, an allocation would be required, for example, with respect to the provision of board, maid service, and nursing or medical care. An allocation would also be required whenever payment for one or more utilities was included in rent. It is further intended that any reasonable allocation agreed upon by the tenant and the landlord would be accepted by the Internal Revenue Service.

As an exception to the general rules stated above, "qualifying real property taxes" would not include real property taxes paid on property with respect to which the taxpayer is receiving a financial subsidy or other benefit under a state, local, or federal housing program. This exception would apply to taxes paid for the period for which the financial subsidy or other benefit is granted. Similarly, a taxpayer would not be permitted to take into account rents that he paid or accrued for a period during which he was occupying tax-exempt housing or public housing, or was receiving a rent supplement under a state, local or federal housing program. Persons affected by these exceptions would, in effect, already be receiving relief from excessive property taxes.

If a taxpayer should change his principal residence during the taxable year, he would be allowed to take into account only the portion of the real property tax or rent paid or accrued by him with respect to each such principal residence as is properly allocable to the period during which it is used by him as his principal residence. Similarly, if the taxpayer should sell or purchase a principal residence during the taxable year, he would take into account only the portion of real property taxes with respect to such property as would be treated as imposed on him under section 164(d) if he were deducting those taxes instead of crediting them.

Both "qualifying real property taxes" or "rent constituting real property taxes" would be determined on a net basis, after subtracting any refund of such taxes (or of such rent constituting real property taxes) received during the taxable year. For this purpose, a refund would include a credit or refund granted against other taxes or any payment to the extent such credit, refund or payment was based on the amount of such property taxes paid (or of such rent constituting real property taxes). This provision is primarily designed to prevent double relief under, for example, both a state circuit-breaker property tax credit and the federal real property tax credit.

C. Credit Limitations

The allowable credit would be subject to two limitations. First, the maximum amount of credit that could be obtained by an eligible single taxpayer or by an eligible couple would be $500. This maximum amount would be reduced by 5 percent of household income in excess of $15,000, so that no credit would be allowable to individuals or couples having household income in excess of $25,000. Second, the allowable credit would be limited to the portion of qualifying real property taxes and rent constituting real property taxes that exceeds 5 percent of household income—that is, to the portion of such taxes or rent considered as taxes that is excessive in relation to the affected person's income. The two limitations would be cumulative, so that the allowable credit would be the lesser of the applicable maximum amount limitation or the portion of taxes and rent considered as taxes that exceeds 5 percent of household income.

For purposes of determining both the applicable maximum amount and the credit limitation based on household income, "household income" would be the adjusted gross income of the eligible individual (or, in the case of a married couple, the adjusted gross income of the couple), plus unemployment benefit payments, old age or survivor benefit payments under the Social Security Act or the Railroad Retirement Act, and tax-exempt interest on governmental obligations.

To illustrate, an eligible individual who paid rent of $125 per month and received a monthly Social Security check for $200, but no other income, would be entitled to a $105 credit. For such individual, the amount of rent constituting property taxes would be 15 percent of the annual rent of $1,500, or $225; and the credit limitation based on household income would be 5 percent of $2,400, or $120. Thus, the amount of rent constituting property taxes would exceed the applicable limitation by $105, and a credit would be allowable in that amount.

D. Refundable Credit

The credit would be refundable. That is, an eligible taxpayer would be entitled to be paid the amount by which the credit exceeded his federal income tax liability. Provision for a refundable credit is necessary if significant relief is to be afforded, since many of the low-income elderly most affected by excessive property taxes have little or no taxable income.

Overpayments made because of erroneous or fraudulent claims for credit would be recoverable in the same way as erroneous refunds under present law.

E. Harmonization of Credit With Deduction Allowed Under Present Law

The credit would be elective. Taxpayers who take the standard deduction in lieu of itemizing deductions for property tax, interest, etc., would be allowed the credit in addition to a full standard deduction. Taxpayers who itemize deductions would continue to be allowed a deduction for property taxes, limited to the noncreditable portion of such taxes.

F. Special Rules

Special rules would be provided to deal with the application of the credit to married couples and to allocate real property taxes and rent between taxpayers jointly occupying a principal residence or between property occupied as a personal residence and property not so occupied.

1. *Married couples.*—For purposes of the credit, married taxpayers would be treated as a single household that would be eligible for the credit if either spouse had attained the age of 65 before the close of the taxable year. The spouses would also be treated as a single taxpayer for purposes of the maximum amount limitation, and the spouses' household income would be aggregated for purposes of the limitation based on household income and the phase-out of the credit for household incomes in excess of $15,000.

In general, a married couple could claim the credit only if a joint return were filed. In cases where a joint return could not be filed, as where one of the spouses was a nonresident alien at any time during the taxable year or where the spouses had different taxable years, the allowable credit would still be determined by treating the spouses as a unit, but the credit allowed would be apportioned between the spouses, under regulations to be adopted by the Secretary of the Treasury or his delegate.

Individuals would not be considered to be husband and wife if they were legally separated under a decree of devorce or under a decree of separate maintenance.

2. *Property jointly occupied.*—In the case of a principal residence that was jointly occupied by an eligible individual (or by an eligible couple) and by other persons, the real property taxes or rent paid with respect to such principal residence would be allocated, pursuant to regulations to be prescribed by the Secretary of Treasury or his delegate, among the several persons occupying the premises. The purpose of requiring such an allocation would be to prevent avoidance of the credit limitations through the devices of having real property taxes or rent paid or accrued by an individual who would not normally be expected to be responsible for such taxes or rent, or of having one individual pay or accrue the taxes or rent that would normally be borne by several persons. Allocation might be required, for example, where a home was the principal residence of two sisters, one or both of whom had attained age 65 before the close of the taxable year, and where the total real property taxes due with respect to such residence were paid by one of the sisters who had attained age 65. Similarly, an allocation might be required in the case of joint occupancy of a principal residence by a married couple, neither of whom had attained age 65 or older, and by a parent who was an eligible individual, to the extent the parent paid more than a fair share of the real property taxes or rent on the home. On the other hand, no allocation would be required in the case of joint occupancy of a principal residence by an eligible married couple and by their dependent minor grandchild.

3. *Property used in part as a principal residence.*—In the case of property that was used only in part as a principal residence, the taxpayer would take into account only so much of the real property taxes or rent paid with respect to the entire property as was properly determined, under regulations to be prescribed by the Secretary of the Treasury or his delegate, to be allocable to the portion of the property used as a principal residence. If the principal residence was located on a farm, no more than four acres of land would be considered to be part of such residence.

G. Timing problems

Because of the credit limitations it might be advantageous for a taxpayer to bunch property taxes or rent in a particular taxable year. Such a bunching problem could occur either because of prepayment of taxes or rent or through overpayment of taxes in one year and a refund in another (as where a taxpayer receives a state circuit-breaker credit in a subsequent year). While such distortions in the timing of tax and rent payments could be corrected through a recapture provision, the administration of such a provision would be burdensomely complex—particularly for the low-income taxpayers affected. Moreover, it is doubtful whether serious distortions would arise in practice. Accordingly, the proposal does not include any recapture provision, though refunds of taxes previously paid are, of course, deducted in determining the total real property taxes paid during the current taxable year. If cases of abusive prepayments of rent or taxes should arise, they would be handled under general doctrines relating to prepaid expenses.

H. Substantiation of claims

In order to permit eligible individuals to substantiate their claims for a credit based on rent constituting property taxes, provision would be made for landlords to furnish receipts indicating the amount of rent paid and the period for which paid. These receipts would be supplied at the request of a tenant who certifies that he has attained age 65.

The Secretary of the Treasury or his or his delegate would be authorized to specify requirements respecting the substantiation of claims of both homeowners and renters for the property tax credit. It is contemplated that in the case of renters this might entail the submission of the receipts to be supplied by landlords.

I. Effective date

The proposal will apply to taxable years beginning after December 31, 1973.

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V. Tuition Credit for Nonpublic Schools

General Explanation

1. SUMMARY OF PROPOSAL

The proposal provides a credit against federal income tax liability to individuals who pay tuition to a nonprofit, nonpublic, elementary or secondary school for the elementary or secondary education of a dependent who is a full-time student at such a school. The credit is equal to 50 percent of the amount of the tuition paid subject to a maximum credit of $200 per year for each such dependent.

In order to limit the benefits which would flow to higher income taxpayers the proposal provides a phase-out of the credit under which the aggregate credit is reduced by $1 for every $20 by which the taxpayer's adjusted gross income exceeds $18,000. Because the phase-out applies to the aggregate credit available to a taxpayer and not to the credit allowable for each dependent, it will take longer to phase-out the credit for a number of children than for a single child. This recognizes the fact that the more children a family has in nonpublic schools the more burdensome is the cost of nonpublic education.

The credit is limited to amounts paid for enrollment or attendance at a nonprofit, nonpublic elementary or secondary school and does not apply to amounts paid for other fees. Elementary or secondary education includes education at a level from grade 1 through grade 12; kindergarten and other preschool attendance is not covered by the credit. In addition, the credit will apply to amounts paid to a special school for the elementary or secondary education of a mentally or physically handicapped child.

If the amount of the credit exceeds the taxpayer's income tax liability for the year, the unused portion may be carried over to offset income tax liability in the succeeding five taxable years. The taxpayer has the additional option, in lieu of the carryover, of claiming a refund and receiving payment for any amount by which the credit exceeds the tax due.

In order to facilitate a judicial review of the constitutionality of the credit, a proceeding may be brought by any taxpayer within three months of the enactment of the credit in the United States District Court for the District of Columbia. All such proceedings will be consolidated and heard by a three judge district court. Any appeal from the decision of the court will go directly to the Supreme Court.

The credit will apply to amounts paid on or after August 1, 1973, with respect to school periods beginning on or after that date.

2. PURPOSE AND EFFECT OF PROPOSAL

The nonpublic school system represents a vital national asset. It provides a healthy diversity and a proving ground for innovation and experimentation which is of great benefit to public education and the public generally. In addition, the nonpublic school system provides a means of social, ethnic, and cultural expression through education to a number of Americans, and large-scale closings of nonpublic schools, if allowed to continue, could be accompanied by disruption of countless communities and neighborhoods in which such schools are a source of pride and stability.

The nonpublic school system shoulders a heavy burden of educating the approximately 10 percent of the nation's children which attend nonpublic schools, and thereby relieves the public school system and the public generally of substantial costs. It has been estimated that the additional cost to the public school system which would result from the closing of the nonpublic school system would be approximately $4 billion in annual operating expenses and $5 billion in capital costs.

In recent years, the cost of nonpublic school education has been increasing at an accelerating rate and has become a heavy financial burden for low and moderate income families. As the financial burden grows, more and more parents will be forced to remove their children from nonpublic schools thereby forcing many of these schools to close and increasing the burden on the public school system. The proposed credit is intended to provide financial assistance to low and middle income parents in order to help them meet the financial burden of nonpublic school tuition and thereby help to stem the decline in nonpublic school enrollment.

The burden of maintaining the nonpublic school system has been sustained by the voluntary action of parents, alumni, and concerned private citizens, and since 1916 the Internal Revenue Code has, in the case of sectarian schools, allowed an income tax deduction to alumni and friends for contributions to nonprofit, nonpublic schools, and to members of religious congregations for church or synagogue contributions which are, in fact, used to support such schools. The proposal will extend similar benefits to parents, who are the third principal source of support for nonpublic schools, and does so in a way which is consistent with our existing system of tax deductions.

Use of a credit rather than a deduction makes the tax benefit independent of the taxpayer's marginal income tax rate, and, therefore, will provide greater assistance to low and middle income families than would a deduction. In addition, deductions are not available to those taxpayers who use the standard deduction, who are typically those with adjusted gross incomes below $18,000. The use of a credit as distinguished from a deduction does not raise any constitutional problems.

A 50 percent credit insures that a parent must continue to contribute his own funds in order to provide nonpublic education for his children, and thus the nonpublic schools will have to maintain their quality in order to retain parental support. The 50 percent credit will result in continued pressure by parents to keep tuition increases at a minimum since they will be unable to offset the entire increase by the credit. In the case of religiously affiliated schools, the 50 percent credit insures that no portion of a tuition payment which qualifies for the credit will be used to subsidize sectarian education since well over one-half of the education received in such schools is secular in content.

Arguments have been raised that a nonpublic school tuition credit which includes tuition paid to a religiously affiliated school violates the requirement of the First Amendment of the United States Constitution. We do not believe that this proposal in any way violates the requirements of the First Amendment either with respect to the credit itself or with respect to the option granted to a taxpayer to receive a refund of an excess credit. If the refundable provision is found to be unconstitutional, however, it may be separated from the other provisions without in any way affecting the operation of the credit.

The proposal will reduce federal revenue for fiscal year 1974 by $300 million. Although the credit does not become effective until August 1, 1973, tuition paid for the full school year 1973–1974 may be paid prior to December 31, 1973, and be eligible for the credit for taxable year 1973.

The credit will cause some increase in nonpublic school tuition particularly in the case of those tuitions which are currently below $400. Taking into account these increases, the estimated annual revenue loss in future years is about $450 million.

Technical Explanation

1. Amount of the Credit

The credit is equal to 50 percent of the tuition paid during the taxable year up to a maximum credit of $200. The credit applies only to tuition paid to a nonprofit, nonpublic elementary or secondary school or to a special school on behalf of a dependent who is a full-time student for a school year. A school year is a one-year period beginning July 1 and ending June 30, and a full-time student is one who is a student at one or more nonprofit, nonpublic elementary or secondary schools or special schools during each of five calendar months during the school year. In order for tuition applicable to a particular school year to qualify for the credit, it must be paid in the taxable year of the taxpayer in which the school year either begins or ends. Thus, a tuition payment of $400 with respect to the 1973–1974 school year must be paid in either taxable year 1973 or taxable year 1974 in order to qualify for the credit.

To preclude a taxpayer from obtaining a credit of more than $200 per dependent with respect to any one school year, no more than $400 of tuition for any one student may be taken into account, for purposes of the credit, with respect to any one school year. Thus, if a calendar year taxpayer incurs $800 of tuition expense for the nonpublic elementary education of his dependent son for the school year 1973–1974 and pays $400 in September 1973 and $400 in January 1974, the maximum amount which will qualify for the credit with respect to the 1973–1974 school year is $400 even though payments were made in two taxable years. If the taxpayer elects to claim the credit with respect to the $400 paid in September 1973 on his 1973 income tax return, he may not claim any amount with respect to the $400 payment made in January 1974. If, however, a $400 tuition payment is made in September 1974 with respect to the 1974–1975 school year, the taxpayer may elect to claim a credit with respect to that amount on his 1974 income tax return.

2. PHASE-OUT OF CREDIT

To avoid giving unnecessary tax benefits to parents with adjusted gross incomes over $18,000 the amount of the credit otherwise available is reduced by $1 for each $20 of adjusted gross income of a taxpayer (and his spouse) which exceeds $18,000. Marital status is to be determined under the rules provided in section 143 of the Code. The following table illustrates the effect of this phase-out for various adjusted gross incomes over $18,000:

Adjusted gross income:	*Reduction in credit*
$18,000	$0
19,000	50
20,000	100
21,000	150
22,000 [1]	200
26,000 [2]	400
30,000 [3]	600

[1] Level at which maximum tax credit is eliminated for 1 dependent.
[2] Level at which maximum tax credit is eliminated for 2 dependents.
[3] Level at which maximum tax credit is eliminated for 3 dependents.

3. DEFINITIONS

A. Tuition

The proposal allows any amount required for the enrollment or attendance of a student at a nonprofit, nonpublic elementary or secondary school or at a special school to qualify for the credit. In order to preclude an administrative problem for the Internal Revenue Service which must audit amounts being claimed for the credit, the proposal excludes from the definition of "tuition" all other "fees" paid directly or indirectly to a nonprofit, nonpublic school or to a special school. Thus, amounts paid for such things as meals, lodging, transportation, supplies, equipment, clothing or other personal or family expenses do not qualify for the credit. In addition, in order to insure that no amount may qualify for the credit if paid for religious education, either as part of the nonprofit, nonpublic school's curriculum or under a release time program or for such things as religious education or training provided after regular school hours or on weekends, the term "tuition" is specifically defined to exclude any amount paid for sectarian instruction or religious worship.

The definition of "tuition" for purposes of the credit is not to have any bearing on the issue of whether tuition constitutes a personal or family expense for purposes of any other provision of the Code. The exclusion of fees covers such things as books, laboratory fees, athletic equipment, and admission fees to extracurricular activities, including such activities as concerts or sporting events.

B. Nonprofit, nonpublic elementary or secondary school

The credit applies only to tuition paid to a school which is an educational institution within the meaning of sections 170(b)(1)(A)(ii) and 501(c)(3) of the Code and which is exempt from tax under section 501(a). In order for a school to meet these qualifications, it must maintain a racially nondiscriminatory policy as to students and must not be part of a system of schools operated on a racially segregated basis as an alternative to white students to avoid desegregated public schools.[1]

It is intended that all schools whose tuition qualify for the credit will meet this requirement with respect to a racially nondiscriminatory policy as to students. In the case of a school which is operated as an integral part of a church or other tax exempt organization, such school

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[1] Revenue Ruling 71-447, 1971-2 C.B. 230; Green v. Kennedy, 309 F. Supp. 1127 (DDC 1970); and Green v. Connally, 330 F. Supp. 1150 (DDC) aff'd., sub. nom Coit v. Green, 404 U.S. 997 (1971).

must maintain a racially nondiscriminatory policy to the same extent as a tax exempt school which is organized and operated as an independent entity. It is intended that the Internal Revenue Service apply the same requirement with regards to a policy of racial nondiscrimination to all schools whose tuition qualified for the credit regardless of how organized or operated.

In order to qualify for the credit, the school must also regularly offer education at the elementary or secondary level, and even though an institution offers education at a higher or lower level, it will only satisfy these requirements to the extent that it offers elementary or secondary education. Thus, a school which offers nursery school or kindergarten classes in addition to elementary education will only qualify as a "nonprofit, nonpublic elementary or secondary school" to the extent of education offered at grades one and above.

The final requirement is that the school must satisfy state compulsory education laws to the extent that there are any applicable to the students attending the school in question. Where there are no compulsory education laws applicable to a student, such as the case where the student is age 17 and the applicable state law required education only to age 16, tuition paid for his attendance at a nonprofit, nonpublic elementary or secondary school will qualify for the credit if the other requirements are met.

C. Special school

In order to provide the benefit of the credit to parents of physically or mentally handicapped children, tuition paid to a school for handicapped children which would constitute medical care as that term is defined in section 213(e) and the regulations thereunder will qualify for the credit provided that the school is operated on a nonprofit basis. The credit is available, however, only for amounts paid for the education of a mentally or physically handicapped individual which serves as a substitute for regular elementary or secondary education. Thus, amounts paid to a special school to train a handicapped individual to perform normal personal functions such as dressing himself would not qualify for the credit, whereas amounts paid to teach reading or writing would qualify for the credit.

D. Elementary or secondary education

The term elementary or secondary education includes education from grade 1 through grade 12. It does not include kindergarten, nursery or other preschool attendance.

The educational content of elementary or secondary education is not specifically defined, but is to apply to what is customarily thought of as elementary or secondary education. The term is not to apply to any type of religious education or recreational training. Thus, the credit will not be available for amounts paid for such things as swimming or dancing classes or for Sunday School classes.

Since the credit is available only with respect to amounts paid for a dependent who is a full-time student at one or more nonprofit, nonpublic schools during each of five calendar months during the school year (defined as a one-year period beginning July 1 and ending June 30), amounts paid for a special course or for a summer school session will not qualify for the credit. The five month enrollment requirement will not be satisfied for any period that the student is not enrolled in a full course of study.

4. DEDUCTION DENIED IN CASE OF AMOUNTS QUALIFYING FOR THE CREDIT

An amount paid for tuition which would qualify for the credit, might also qualify as a child care expense, deductible under section 214 or in the case of a payment made to a special school, the payment will, by definition, qualify as a medical care expense, deductible under section 213. In order to preclude taxpayers from receiving both a credit and deduction with respect to the same payment, any amount which the taxpayer elects to take into account for purposes of determining the amount of the credit to which he is entitled shall not be taken into account for purposes of determining whether the taxpayer is entitled to a deduction (or the amount of any such deduction) under any other provision of the Code. Thus, if a taxpayer makes a payment of $800 to a special school for the elementary education of a dependent he may elect to claim $400 for purposes of the tuition credit in which case his medical expense deduction is limited to $400. This result would not be changed on account of the fact that the maximum credit to which the taxpayer is entitled is reduced because his adjusted gross income exceeds $18,000. The election is to be made by the taxpayer by claiming the credit on his tax return in lieu of claiming a deduction and the election may be changed at any time prior to the running of the statute of limitation with respect to filing amended returns.

ADJUSTMENT FOR CERTAIN SCHOLARSHIPS AND RECAPTURE OF CREDIT ALLOWED

Since the credit is intended to provide assistance to parents who pay nonprofit, nonpublic elementary or secondary school tuition for their children it is not to apply in a case where the taxpayer has not borne the economic incidence of the tuition. Thus, if a child receives a scholarship to attend a nonprofit, nonpublic elementary or secondary school and a payment is made, either to the student or to the parent, which is excludible from income under section 117, the amount so excluded shall reduce the amount of tuition paid by the taxpayer during the taxable year which would otherwise qualify for the credit. Although the theory of denying a double benefit ought to apply in the case of a gift made to the taxpayer for the express purpose of enabling the taxpayer to pay the tuition expense of a dependent, it must be recognized that there is an administrative problem for the Internal Revenue Service in tracing such gifts and for this reason such training is not to be required.

In the event that a taxpayer receives a refund of tuition paid in a prior taxable year and the amount paid in the prior year had been claimed for purposes of the credit, the taxpayer's tax liability for the year of the refund is increased by an amount equal to the lessor of 50 percent of the tuition refunded or the amount of the credit claimed in the prior year.

6. CARRYOVER OF EXCESS CREDIT

If the allowable tuition credit for a taxable year exceeds the taxpayer's income tax liability (after taking into account all other allowable credits) the excess may be carried over and used to offset income tax liability in a succeeding taxable year. Any amount carried over may be added to a credit allowable for a succeeding year and the total amount, even if in excess of $200 per dependent may be used to offset income tax liability. An unused credit may be carried forward for up to five taxable years. For example, if A pays $400 in qualifying tuition for a dependent son in taxable year 1974 but has tax liability of only $100, $100 of the allowable credit will reduce his tax liability to zero and $100 will constitute a tuition credit carryover. If A pays another $400 of qualifying tuition for his son in taxable year 1975, and for that year his tax liability is $500, he may use the $100 carryover plus the $200 credit allowable for 1975 to reduce his tax liability by $300.

7. OPTION TO RECEIVE A REFUND

At his option, a taxpayer may elect to receive a payment for the amount by which an allowable tuition credit exceeds his federal tax liability in lieu of carrying forward an excess credit to be used to offset tax liability in a succeeding taxable year. This option will be exercised by appropriate notation on the indivdual's income tax return, and, in the case of individuals not required to file an income tax return, the Internal Revenue Service will provide a form to be filed in place of a tax return. No interest is to be paid on any amount paid to a taxpayer under this option.

Overpayments made on account of erroneous or fraudulent claims for credit will be recoverable in the same manner as erroneous refunds under present law.

8. EXAMINATION OF BOOKS AND RECORDS

To assure that there will be no unnecessary interference with the activities of a church or association of churches where a school is operated in conjunction with it, the books and records of a school operated in conjunction with a church may be examined by the Internal Revenue Service only to the extent necessary to determine that the school is an exempt educational institution, regularly offers education at the elementary or secondary level and satisfies any state compulsory education laws. In all other respects, the burden is upon the taxpayer to establish that he is eligible for a credit and the amount of the credit to which he is entitled. It is his responsibility, for example, to establish the amount paid and that this amount was paid for tuition, to the same extent that under present law, the taxpayer must verify the amount claimed as charitable contribution deduction.

9. EFFECTIVE DATE

The credit will apply to amounts paid for tuition on or after August 1, 1973, with respect to school periods beginning after that date.

VI. Exploratory Drilling Investment Credit

General Explanation

1. SUMMARY OF PROPOSAL

The proposal is intended to provide additional incentives for exploratory drilling for new domestic sources of oil and gas. This will be achieved by permitting the driller of a new domestic exploratory hole to claim the 7 percent investment credit on his intangible drilling costs plus an allowance for geological and geophysical expenses. If the exploratory hole proves commercially productive, a supplementary credit of 5 percent of the IDC will be allowed against the first tax payable on net income from the production.

An "exploratory hole" will be defined as a hole which is bottomed not less than two statute miles horizontally from the nearest well which is capable of commercially producing oil or gas or was previously so productive, or which is bottomed at least 3,000 feet below the lower limit of a commercially producible deposit penetrated by any such closer well. In general, the hole must be intended to produce oil or gas but exceptions will be made for certain off-shore holes that cannot be completed as producers.

The 7 percent exploratory drilling investment credit, but not the supplementary 5 percent credit, will be subject to the same over-all limitations which currently apply to the present investment tax credit. In other words, no taxpayer may claim investment tax credit or exploratory drilling credit exceeding in the aggregate $25,000 plus 50 percent of his pre-credit tax liability in excess of $25,000. Carrybacks and carryovers for the exploratory drilling credit will be available on a similar basis to the investment tax credit. Various special investment tax credit provisions, such as those regarding useful lives of eligible property, credit recapture, used property, public utility property, and pipeline companies, however, will not affect the exploratory drilling credit.

The credit will be available for exploratory wells drilled anywhere within the 50 states, including off-shore wells on the continental shelf surrounding the United States. Wells drilled in Puerto Rico, or territories or possessions of the United States or their surrounding waters, will also qualify, but wells drilled elsewhere will not. The credit will be available to corporations, individuals, or other entities.

The 7 percent credit will apply to all intangible drilling costs as currently computed. In addition, the credit base will include an allowance for geological and geophysical costs of up to $50,000 per exploratory well. The figure of $50,000 per well represents a conservative estimate of the national average of geological and geophysical costs per exploratory hole. Because allocation of geological and geophysical costs to any particular well is difficult or impractical, and because a generalized incentive to perform geological and geophysical activities within the United States is desirable, the taxpayer will be permitted to allocate to any exploratory well geological and geophysical costs, wherever incurred in the United States, up to the $50,000 limit. In order to prevent abuse, only wells 1,250 feet or more in depth will qualify for this geological and geophysical inclusion in the credit base.

The credit will be effective with respect to all drilling commenced after April 17, 1973.

2. PURPOSE AND EFFECT OF PROPOSAL

A contributing factor to the current shortage of energy has been a substantial diminution in recent years in exploratory drilling for new sources of oil and gas within the United States. Despite increasing cosnumption of crude oil, exploratory wells drilled within the United States have declined from an average of 8,600 to 7,200 per year since 1966, and the number of successful exploratory wells has diminished from 1,400 per year to 1,200. The decreasing attractiveness of remaining drilling prospects, an increase of 133 percent in per-well drilling costs in the past decade, and the frequently superior attractiveness of overseas drilling prospects have tended to discourage much-needed drilling for new oil sources within the United States. Geologists, nevertheless, advise that substantial undiscovered oil and gas deposits undoubtedly still exist within this country. Obvious strategic considerations, as well as the nation's balance of trade, make it important to foster and encourage the location of and production from such new reserves. The exploratory drilling credit is intended to provide this added incentive. It is focused on new field exploration in order to halt, and hopefully reverse, the diminution in such new exploratory drilling. The added incentive for successful wells is designed to reward success more highly than failure.

The revenue costs of the exploratory drilling credit for the first full year, at 1973 levels of income, will be about $50 million.

Technical Explanation of Proposal

1. APPLICATION OF INVESTMENT CREDIT

In general, the present investment tax credit allowed by stction 38 permits a taxpayer to credit against his tax 7 percent of his qualified investment in certain depreciable property. The investment which gives rise to this credit will be expanded to include the taxpayer's exploratory drilling investment. As is the case with the present investment tax credit, the expanded credit will apply to all taxpayers, *i.e.*, corporations, individuals, trusts, and other entities.

Exploratory Drilling Investment

The exploratory drilling investment includes:

(i) The total of intangible drilling and development costs incurred in connection with domestic exploratory holes. Intangible drilling costs are those costs which a taxpayer may deduct under section 263(c).

(ii) The taxpayer's direct geological and geophysical costs incurred in the taxable year in the search for oil and gas, wherever domestically incurred, up to $50,000 times the number of domestic exploratory wells which are drilled to a depth of at least 1,250 feet. Direct geological and geophysical costs do not include any allocated overhead costs. For this purpose, all members of an affiliated group will be treated as a single taxpayer, so that geological and geophysical costs of one member may be included in the credit base of another member of the group. It is recognized that substantially all geological and geophysical costs are incurred in the process of exploring for new reserves, but that it is difficult or impracticable to allocate such costs to a particular well. Accordingly, such costs, whether or not incurred in the immediate drilling area, are considered as part of the exploratory drilling investment which gives rise to the new tax credit. Once geological and geophysical costs have been attributed for this purpose to one well, those same costs may not be attributed to another well. However, the taxpayer may allocate such costs initially to his own best advantage.

Present Treatment Unaffected

The credit will not affect the present treatment of the deductibility of either intangible drilling costs or geological and geophysical costs, nor the availability of the investment tax credit as to depreciable oil or gas well costs, nor will the allocation of geological and geophysical costs to a particular well for purposes of the credit alter the tax treatment or allocation of such amounts for other tax purposes.

Credit Limitation

The 7 percent credit for exploratory drilling investment will be a part of the regular investment tax credit allowed by section 38, and will therefore be subject to the limitations of section 46. Accordingly, the credit will be added to the credit on the qualified investment in section 38 property to determine the total amount which may be credited against tax in any one year. This amount may not exceed $25,000 plus 50 percent of the amount by which the tax for the year exceeds $25,000. Also any credit allowed by section 38, including the credit with respect to exploratory drilling investment, which exceeds the foregoing limitation may be carried back three taxable years and forward seven taxable years.

The exploratory drilling investment will not represent an investment in section 38 property, essentially depreciable personal property. It will not be subject to the regular investment tax credit provisions specifically applicable to section 38 property, such as recapture of the credit upon disposition, minimum useful life requirements, and so on. In addition, the present limitations on public utility property, regulated companies such as pipeline companies, and the limitation on noncorporate lessors will be made applicable only to that portion of the investment tax credit attributable to section 38 property. The exploratory drilling investment portion of the credit will therefore be excluded from these limitations.

2. EXPLORATORY HOLE

An exploratory hole is a domestic hole—

(i) which, except for certain off-shore wells, was intended to produce oil or natural gas,

(ii) which has been completed to the point of production or abandoned ("completed") and

(iii) (a) neither the bottom nor any producing interval of which is within two statute miles of horizontal distance from the nearest producing interval of a well which is, or at any time was, capable of commercial production of oil or gas, or

(b) neither the bottom nor any producing interval of which is less than 3,000 feet below the lowest part of any known commercially producible deposit which lies closer to the earth's surface and which is penetrated by any productive well closer than two miles away. The 3,000 foot test will be applied by reference to sea level.

In general, the hole must be drilled for the purpose of producing oil and gas. In certain cases involving off-shore drilling an exception will be made for holes that cannot be used for production because it is difficult or impossible to complete such holes as producers. In that limited situation, the credit will be allowed for holes (which meet the distance requirements) drilled until the first of such holes penetrates a commercially producible deposit. Such first well, however, will be considered a well "capable of commercial production" so that any later hole which is within two miles and does not penetrate at least 3,000 feet deeper will not be considered "exploratory" for purposes of the credit.

The distance tests are applied at the time a well is completed, and the intangible drilling and development costs, whenever in fact incurred prior to the end of the taxable year of completion, are considered exploratory drilling investment at that time. Thus, the year in which the credit is allowable is the year of completion. The determination of whether a well is within two miles from a commercially productive well is made at the time the drilling is completed rather than at the time of commencement to insure that no more than one taxpayer will be able to claim the credit on a single discovery, and encourage promptness in drilling likely prospects.

Domestic Well

A well will be considered to be a "domestic" well for purposes of the investment tax credit if it is drilled in the United States. For this purpose the term "United States" will have the same meaning as it does in section 638(1). Thus, offshore wells in the continental shelf and wells in Puerto Rico or a possession or territory of the United States, or in their surrounding waters, will qualify. Wells drilled outside of these areas will not qualify for the credit. The same definitions will apply to "domestic" geological and geophysical costs.

3. SUPPLEMENTARY 5 PERCENT CREDIT FOR PRODUCTIVE EXPLORATORY WELLS

If an exploratory well becomes productive, a supplementary 5 percent of the exploratory drilling investment attributable to that well may be credited against the first tax attributable to the property in which the well is located. The determination of tax attribuable to the property will be based on the "taxable income from the property" as determined for purposes of the limitation on percentage depletion contained in section 613, less applicable depletion. In other words, a taxpayer would first compute the taxable income from the property by deducting from gross income from the property those deductions, including depletion, attributable to the property. Next, the taxpayer would compute his tax on his regular taxable income. Finally, he would compute the tax on his regular taxable income less the taxable income from the property. (For this purpose, regular taxable income will be computed without regard to net operating loss carrybacks or carryovers.) The difference between these amounts of tax is the limit for any additional 5 percent credit in any one year. In the case of corporate taxpayers, a simplified computation may be used under which the credit may be claimed up to 48% of the taxable income from the property. In the case of offshore drilling, an exploratory well which first penetrates a commercially producible deposit will be eligible for the supplementary 5 percent credit even if it is not completed as a producer.

No Limitation

Any portion of the supplementary 5 percent credit which does not exceed the tax attributable to the property may be fully credited against any tax liability which exists after all other credits have been applied. If some or all of such portion exceeds the tax liability, if any, for the year, it may be carried over to succeeding years without limit as to time and credited against any tax liability in such later years, until fully exhausted. Thus, for example, if tax is eliminated by a net operating loss carryover to the year in issue, the unused credit may be used in the first year after the carryover expires, or in which the carryover is exhausted.

Any portion of the supplementary 5 percent credit which exceeds the tax attributable to the property in any one year may be carried to succeeding years without limit as to time as an additional 5 percent credit against such later years' tax attributable to the property with respect to which the credit was originally earned.

4. EXAMPLE

The following example illustrates the basic principles of the exploratory drilling credit.

A, a calendar year corporation, filing a consolidated return as a member of an affiliated group with corporation B, drilled three domestic oil and gas prospects. Drilling on each commenced in October 1973. The first and second, both dry holes, were abandoned (cemented in) at the 9,000 foot level in 1974. The third was completed in 1974 as a natural gas well with a producing interval at the 10,000 foot level. On each well, intangible drilling costs of $200,000 were incurred, $50,000 in 1973 and $150,000 in 1974. While A incurred no geological or geophysical costs, corporation B, which did no drilling, incurred $100,000 of direct domestic geological and geophysical costs in 1973, and $80,000 of such costs in 1974. Taxable income before depletion from the third property was $20,000 in 1974, against which percentage depletion of $6,000 was claimed. The first and the third wells were, at completion, more than two miles from the nearest producing well. However, during the course of drilling the second hole, a shallower well capable of commercial production was completed by other parties one and one-half miles away from the second hole, although in a different geological formation the bottom of which was 2,000 feet closer to sea level than the bottom of A's second hole.

The consolidated taxable income of the group for 1974 before the drilling credit was $200,000, and the tax thereon, before credits, is $89,500. Aside from the exploratory drilling credit, the group is entitled to a consolidated investment credit of $27,250.

The group's exploratory drilling investment for 1974 was $480,000. This includes: (a) all 1973 and 1974 intangible drilling costs on the first and third holes, a total of $400,000, and (b) (since both qualifying holes were over 1,250 feet in depth), B's 1974 geological and geophysical costs (not in excess of $50,000 times two), or $80,000. The exploratory drilling investment excludes all costs of the second hole, which (due to the nearby discovery) does not qualify as a domestic exploratory hole.

The group's 1974 exploratory drilling investment credit, before applying the investment credit limitation, will be $33,600 (7 percent of $480,000). The credit limitation, however, is $57,250 ($25,000 plus one-half of the excess of $89,500 over $25,000). Since $27,250 of this has already been absorbed by the investment tax credit, the group's 1974 exploratory drilling investment credit is $30,000. The remaining $3,600 will be an investment credit carryover or carryback.

Because the third well was productive, a supplementary credit of $12,500 is available. This represents 5 percent of the exploratory drilling investment of $250,000 with respect to that well ($200,000 of 1973 and 1974 intangible drilling costs plus $50,000 direct 1974 geological and geophysical costs). While A incurred a total of $80,000 of domestic geological and geophysical costs in 1974, and has two qualifying domestic exploratory wells over which to prorate the costs, such costs, regardless of where in fact incurred within the United States, may be allocated by the taxpayer in the manner most advantageous to it for credit purposes, up to the limit of $50,000 per well. In this case, the taxpayer would find it advantageous to allocate $50,000 to the third (producing) well and $30,000 to the first dry hole. The taxable income from the third property was $14,000 ($20,000 less $6,000 percentage depletion) and the tax attributable thereto, using the simplified method of computation, was $6,720 (48 percent times $14,000). Therefore, the group may claim in 1974, in addition to the $57,250 investment credit, a further credit of $6,720. The remainder of the $12,500 extra credit for the producing well, or $5,780, may be carried forward and used to offset the first $5,780 of tax attributable to taxable income from the third property, in 1975 or later.

The consolidated tax liability for 1974 is, therefore, $25,530 ($89,500 less the sum of $57,250 and $6,720).

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5. EFFECTIVE DATE

The exploratory drilling credit will be effective with respect to domestic exploratory holes drilling of which is commenced after April 17, 1973. If drilling is begun after that date, intangible drilling and development costs incurred in connection with an exploratory hole will qualify as exploratory drilling investment even though such costs were incurred before that date or in earlier taxable years. Moreover, geological and geophysical costs may be attributed to an exploratory hole drilling of which is begun after April 17, 1973, even though such costs were incurred before that date, or after completion of drilling, provided that such costs were incurred in the taxable year which includes the date the well is completed or abandoned.

VII. Taxable Municipal Bond Act of 1973

General Explanation

1. SUMMARY OF PROPOSAL

The federal government will pay an interest subsidy equal to 30 percent of the net interest expense on a qualifying state or local obligation on which the issuer has elected to pay federally taxable interest. Generally, any state or local obligation interest on which is now exempt from federal income tax would be eligible for the subsidy if the Secretary of the Treasury agrees to pay it and the issuer elects to subject the interest to federal tax. Certain limited exceptions are provided to prevent inordinate costs to the federal government.

The issuer would receive the 30 percent subsidy, less Treasury administrative costs, in time to make its interest payments to the bondholders. The issuer would have to report to the Internal Revenue Service the payments of the taxable interest.

The subsidy would not affect the exempt status of interest on nonsubsidized obligations, which will continue to be freely issued.

2. PURPOSE AND EFFECT OF PROPOSAL

The proposal will provide a more stable market for state and local government obligations by enabling these governments to compete more effectively with corporations, especially when market rates are high. It will also make municipal obligations attractive to pension trusts and other exempt organizations, which presently do not typically invest in tax-exempt obligations. The subsidy program will also tend to reduce the supply of tax-exempt obligations and slightly depress interest rates on those remaining, thereby reducing both municipal borrowing costs and the availability and attractiveness of exempt obligations to high bracket taxpayers.

The Treasury estimates subsidy costs for the first year of $180 million, with an offsetting amount of increased tax receipts, depending on the amount of new municipal borrowing stimulated by the subsidy and the average marginal tax bracket of investors in tax-exempt obligations. A reasonable estimate is that there would be little net gain or loss to Treasury at the 30 percent subsidy level.

3. BACKGROUND OF PROPOSAL

Under current law all interest on most obligations issued by state and local governments is exempt from federal income tax. The exempt bonds traditionally have been purchased by individuals or organizations for whom the tax-exempt feature offsets the lower interest rates paid on such tax-free issues. The principal buyers have been banks and other corporations.

Public borrowing by state and local governments has increased substantially over the past decade and is expected to continue at high levels. As more exempt issues are offered, their interest rates have increased. At the same time banks are beginning to reduce their holdings in exempt obligations. By making a broader market available to state and local governments through the offering of obligations carrying taxable interest at rates competitive with corporate obligations, these governments will be better able to meet their growing responsibilities. Just as it was and is felt to be good federal tax policy to allow state and local governments to issue exempt obligations at a saving to these governments, it is felt that the taxable, subsidized municipal bond proposal is based on sound federal-state tax policy. In this way, while the exempt bond market will be preserved, a genuine option will be afforded municipal borrowers. Experience under the program will be required to evaluate the need for more or fewer restrictions on eligibility for the subsidy.

The dual coupon approach advocated by some has been rejected in favor of direct payment to the issuer or its agent in order to avoid such unnecessary and costly problems with a dual coupon approach as the maintenance of a staff to verify the legitimacy of any coupon presented, to make numerous interest payments, to replace lost or stolen coupons, and to guard against payment of interest represented by a coupon not returned when an underlying obligation was retired.

Technical Explanation of Proposal

1. ELECTION TO ISSUE TAXABLE BONDS

The proposal has two principal provisions: an election under a new section 103(e) of the Internal Revenue Code to make interest on state or local obligations taxable, and a federal interest subsidy authorized under a section of the new Act, which will create a permanent appropriation and thereby insure to municipalities the continuity of the program. If the issuing government elects to issue obligations on which the interest is federally taxable, or agrees so to elect, it may enter into an agreement with the Secretary of the Treasury to receive the federal interest subsidy. The subsidy, once agreed to, would be assured for the life of the issue and could not be reduced or adversely modified subsequently, even if the proposed statutory provisions were amended or repealed. Once the election was made, an agreement reached to provide a subsidy, and the obligations were issued, neither the election nor the subsidy agreement could be revoked.

2. INTEREST SUBSIDY

(i) *30 percent of net interest expenses.*—The subsidy is an amount equal to 30 percent of up to 10 percent a year of net interest expense incurred by the issuer, less administrative costs to the Treasury incurred with respect to the issue, and adjusted to reflect any discount or premium, if necessary. The subsidy will be paid to the issuer or its agent immediately before the interest is payable to holders.

(ii) *Definition of net interest expense.*—The proposal defines the subsidy as a percentage of "net interest expense." Viewed through the borrower's eyes, the cost of borrowing money is the amount paid to holders of the obligations and any additional amounts incurred in the issuance or continued service of the obligations. Thus, the proposal would include in the subsidy base the extra amounts paid to intermediaries in the course of issuing the obligations and in day-to-day servicing of the issue. For example, amounts paid to underwriters and to paying agents could be included in the subsidy base, but the normal administrative costs incurred by the issuing government would be ineligible.

(iii) *Verification of interest due.*—Prior to payment of the subsidies to an issuer or its agent, the payee would verify that the issue had not been retired and state the interest payments to become due. This verification would be largely routine in nature and would permit the Treasury to maintain the smallest possible permanent staff. The issuer or its agent will be required under Code section 6049 to report to the Internal Revenue Service taxable interest paid to holders.

(iv) *Notation of interest taxability.*—No interest subsidy will be paid on any obligation unless the evidence of indebtedness is appropriately marked to indicate that the interest paid on such obligation is not exempt from federal income tax.

(v) *Permanent appropriation.*—The proposal includes a permanent appropriation for interest payments. Thus, even if the Taxable Municipal Bond Act of 1973 is repealed or modified in the future, issuers of obligations under it are assured of continued receipt of subsidy payments from the Treasury.

3. ELIGIBLE OBLIGATIONS

(i) *Otherwise exempt obligations.*—Generally, eligible obligations are those carrying interest which would be exempt from federal income tax under Code section 103(a)(1) but for an election by the issuer under new section 103(e) for such interest to be taxable.

(ii) *Exceptions.*—An otherwise eligible issue will not qualify if—

A. the Secretary determines that the net interest expense is unrealistically high based on fair market value.

B. the maturity of the obligation is less than one year.

C. it is held by a congressionally established entity owned in whole or in part by the United States, or by a unit which is an issuer of obligations to which section 103(a)(1) applies.

The limitation in subdivision C is necessary to avoid further federal interest subsidy payments on loans made by HUD, HEW, Commerce, and other federal agencies at interest rates which are already heavily subsidized. It will also prevent one state from purchasing subsidized, taxable obligations of another state with proceeds from its own issuance of subsidized obligations.

4. TREASURY ADMINISTRATION

(i) *The subsidy.*—The subsidy will be a fixed percent of net interest expense and is not subject to modification by the Secretary or any other authority. Thus, the only administrative duty will be to compute the net interest expense, multiply by 0.3, deduct the Treasury's administrative costs, and mail the subsidy checks.

(ii) *The 10 percent limitation.*—There will be a modifiable limitation on the amount of the subsidizable net interest expenses. Initially, net interest expenses in excess of 10 percent will not be subsidized. For example, with respect to an issue on which the net interest expense is 12 percent, the federal subsidy would be limited to 3 percent and the issuer would pay the remaining 9 percent. The Secretary, who will not have power to alter the 30 percent subsidy rate, will have the power to modify prospectively the 10 percent ceiling on subsidizable net interest expenses if experience indicates that the ceiling is too high or too low. In so doing, the Secretary would consider general interest rate trends, the cost of the subsidy program under a 10 percent ceiling and under any reduced or increased ceiling, and other appropriate factors.

5. REGULATIONS

(i) *Automatic agreement with the Secretary.*—Regulations will be issued providing alternative sets of standards which, if met, would eliminate the necessity for explicit advance agreement by the Secretary upon appropriate certification to him that an applicable set of standards had been met. The requirement of an advance negotiated agreement would thereby be limited in practice to the unusual cases where it is necessary to provide additional pre-issuance assurance to the government that an issue is subsidizable. This will:

A. reduce the possibility of an issue being sold to the public as a federally subsidized issue and later being discovered to be ineligible and not subsidized.

B. render the agreement procedure largely unnecessary in practice.

C. avoid federal review of state or local decisions relating to the issuance of taxable bonds or of the use to which the proceeds are to be put.

(ii) *Specific regulatory powers.*—Specific regulatory authority is granted to the Secretary to prescribe regulations relating to:

A. the time, manner, and conditions under which a state or local government will make the election under section 103(e) to issue taxable obligations.

B. the time and manner in which the Secretary will pay the subsidy to the issuer or its agent.

C. limitations on the general exceptions in the eligibility rules.

(iii) *General regulations.*—In addition to the specific grants of regulatory authority, broad regulatory powers are granted covering all aspects of the proposed act. For example, the Secretary would be expected to prescribe regulations relating to:

A. the definitions of "net interest expense", Treasury "administrative costs" and "issuer".

B. the notation to appear on the face of any subsidized obligation with respect to its taxability.

C. the subsidy eligibility rules.

D. information reporting.

E. provision for bond premium and discount.

VIII. Arbitrage on Advance Refundings of State and Local Securities

General Explanation

1. Summary of Proposal

The proposal will provide an incentive to eliminate undesirable conditions which have developed with respect to advance refunding bonds issued by State and local governments under the present arbitrage bond provisions of the Code, which were enacted in 1969. Advance refunding bonds are bonds issued to replace bonds which are outstanding and not callable until some future date, often a number of years away. Proceeds of advance refunding issues are typically placed in escrow and invested until the old bonds can be called and retired. The fact that the proceeds must be invested, often for long periods of years, provides unusual opportunity to arbitrage. Under the proposal issuers who invest the proceeds of advance refunding bonds in special securities of the United States or governmental agencies designated by the Treasury will be permitted to obtain a yield on such securities equal to the yield permitted by existing law plus an additional one-quarter of one percentage point.

In order to obtain the additional one-quarter of one percent yield differential, the proceeds of the refunding issue must be invested in special federal securities made available by the Treasury, and such investments must be retained by the issuer until their maturity date, and the principal then received must be applied pursuant to call provisions to retire the outstanding state or local obligations. The right to obtain the one-quarter of one percent yield differential is also subject to the condition that the advance refunding obligations be issued for legitimate refunding purposes and not primarily for arbitrage profit.

2. Effect of the Proposal

The proposal would assist issuers of advance refunding bonds by providing them with a higher yield on the invested proceeds of those bonds than is now obtainable under the Code and Treasury proposed regulations. Issuers are now required to invest proceeds of advance refunding bonds in securities having an artificially low yield, as there is no practical way to eliminate the practice of arbitrage except to make its profits unavailable to the issuer. They are, in effect, required to give the windfall away. The beneficiaries are typically promoters, underwriters or banks, who thereby have every incentive to promote advance refundings. The allowance of a higher yield on investments in United States obligations should provide a compelling inducement (and a legal compulsion where state law requires the issuer to invest proceeds at the best yield) for issuers to invest in United States securities, thus channeling the unavoidable windfall back to the United States rather than leaving it for promoters and others.

3. BACKGROUND OF PROPOSAL

In 1969 Congress enacted section 103(d) as a response to the fact that state and local governments were misusing the tax exemption privilege by engaging in arbitrage transactions. In those transactions proceeds of tax-exempt obligations were used by the issuer to purchase substantially higher-yielding federal or other obligations, the interest on which, although taxable to the ordinary purchaser, would not be taxed to the governmental issuer. Congress, therefore, provided that the tax exemption would not be available if the proceeds of governmental obligations were invested in securities reasonably expected to produce, over the term of the issue, a yield that was "materially higher" than the yield on the governmental obligations.

In formulating regulations under section 103(d) Treasury recognized that advance refunding presented a particular opportunity for arbitrage profit. Bonds may be refunded substantially in advance of either their call dates or maturities for several reasons.

One reason for advance refunding is that the refunding may effect a potential interest saving. If the bonds were issued at 7 percent with a call date of 1980 and a maturity of 1985, and if new bonds can be issued in 1973 at 6 percent, many issuers will conclude that it is worthwhile to issue 6 percent bonds in 1973, escrow the invested proceeds and use them in 1980 to redeem the 7 percent bonds. The proceeds of the 6 percent bonds can be invested from 1973 to 1980 to return at least 6 percent (since rates on ordinary bonds will be higher than those on the tax-exempt bonds—the spread between those rates being "arbitrage" to the state or local issuer). After the 7 percent bonds are called in 1980, the issuer will realize the saving of having 6 percent bonds rather than 7 percent bonds outstanding for the remaining period. However, advance refunding for rate advantage involves a possible risk, since final judgment as to saving has to await the call date. If it develops that in 1980 market yields would allow a more advantageous refunding (enough less than 6 percent to exceed the allowable arbitrage profit), there has been a loss. This possibility is played down by the promotor.

A second reason to issue refunding bonds in advance may be to secure relief from a burdensome covenant of the outstanding bonds. Bond indentures typically provide that such covenants are defeased where sufficient funds to redeem the bonds are placed in escrow.

A third reason to issue advance refunding bonds is simply to profit from arbitrage, *i.e.*, the spread between the rate at which the new bonds are issued and the rate obtainable from investing the proceeds. Without restrictions on permissible savings from such investments it can be profitable to issue a refunding bond at an equal or even higher rate of interest than that on the original obligations.

The regulations proposed in June of 1972 permitted the proceeds of an advance refunding to be invested free of restrictions for a period not exceeding the shorter of 10 percent of the term or three months. Proceeds could also be invested at a yield differential of one-eighth of one percent during the last three years of the issue. Apart from such periods, however, the regulations provided that no yield differential would be permitted for advance refundings. While the purpose of these provisions was to restrict arbitrage profit, they had certain unintended effects. Thus, the artificially low yields required produced potential windfalls for promoters and others, who set out to calculate possible savings with respect to outstanding issues through use of various investment devices, dramatize these opportunities to governmental units, and thus bring about advance refundings in many cases where they would not otherwise have occurred. Administratively Treasury has taken action designed to limit the use of such devices. It seems clear, however, that a legislative response will provide the only effective long-range solution to the problem. By encouraging the use of special Federal obligations, Treasury seeks to reduce the windfall profit to third parties and limit refunding to its traditional purposes, *e.g.*, true cost savings based on market rate changes or relief from burdensome covenants. At the same time issuers can obtain higher yield differentials and the flexibility, safety and relatively low cost of the new Federal investment securities.

Technical Explanation

In general, section 103(d) provides that obligations of a state or local governmental unit may not be issued on a tax-exempt basis if it is reasonably expected that all or a major portion of the proceeds of such obligations will be used to acquire securities or obligations which produce a "materially higher" yield than the governmental obligations over the term of the issue. Under the proposal, a special rule would be provided for the purpose of applying the "materially higher" yield test to investments of qualified refunding proceeds. While Treasury regulations may prescribe a lower permissible yield for investment of proceeds of other governmental issues, the proposal would permit investment of qualified refunding proceeds at a differential not exceeding one-quarter of one percentage point. In other words, if the yield on obligations acquired with qualified refunding proceeds did not exceed the yield on the governmental obligations by more than one-quarter of one percentage point, that differential would be treated as not materially higher for purposes of section 103(d)(2).

Two requirements must be met before proceeds will be classified as qualified refunding proceeds. First, the governmental obligations must be issued for the primary purpose of refunding prior outstanding obligations of the same issuer and not for arbitrage profit. This requirement will be satisfied if it is reasonably expected that the refunding will achieve meaningful savings in interest costs to the issuer. The requirement will also be satisfied if refunding is necessitated by special circumstances not involving arbitrage profit, such as the need to eliminate the restrictions of a burdensome convenant. The second requirement is that all or a major portion of the proceeds must be used by the issuer to acquire securities issued by the United States, or any agency or instrumentality thereof, which are made available by the Secretary of the Treasury or his delegate for such purpose, which securities shall be held by the issuer pending use of the proceeds to redeem all or a portion of the outstanding governmental obligations prior to their maturity. In its discretion, the Treasury may make available for such investment purpose obligations of present or future government-sponsored agencies or so-called "budget" agencies, as well as special issues of Treasury obligations. In order to obtain the higher yield differential the governmental unit must acquire the designated securities from the issuer. In addition, each of such acquired obligations must have a maturity date which is no more than thirty days prior to the time when the principal amount of the acquired obligation is used to retire all or a portion of the obligations being refunded.

It is anticipated that only nonmarketable securities will be made available by Treasury for purposes of investment by the governmental issuer. The interest rate on these new securities will be established by the state or local issuer in compliance with the arbitrage provisions, provided only that such rate does not exceed the maximum yields established by the Treasury. These maximum rates will be based on market rates for Treasury securities of comparable maturity.

Except for the permissible yield differential of one-quarter of one percent, issues involving qualified refunding proceeds will be subject to the general arbitrage provisions of such regulations as the Treasury may from time to time prescribe relating to refunding, including an allowable temporary period for investment of proceeds of refunding obligations.

IX. Tax Return Preparers

General Explanation

1. Summary of Proposal

The proposed legislation offers a workable solution to the problem of unscrupulous tax return preparers with a three-part approach. First, the proposed legislation will require each tax return preparer to place his identification number on each return he prepares, and will require a person who employs tax return preparers to file a return listing the name, taxpayer identification number, and place of work of each such employee. This information will facilitate inspection of the manner in which a tax return preparer conducts his preparation service when facts warrant such investigation.

Second, the proposed legislation will provide civil penalties for tax return preparers in the case of negligent or intentional disregard of the internal revenue laws and in the case of willful attempts to evade, defeat, or understate a taxpayer's tax liability.

Third, the proposed legislation will authorize injunctive action against preparers who engage in conduct subject to penalties or other acts which substantially interfere with the administration of the internal revenue laws. Thus, although some of the civil penalties provided may appear to be nominal, the provisions themselves will serve a dual function, since the acts involved will also be grounds for injunctive relief.

2. Purpose and Effect of Proposal

The tax return preparer proposal is designed to solve the tax return preparer problem by applying to tax return preparers sanctions that are less severe and easier to administer than criminal sanctions. The proposed sanctions are comparable to sanctions currently directed toward taxpayers themselves. The effect of the proposal will be to make tax return preparers responsible, to a much greater degree than at present, for the returns they prepare, and to raise the degree of compliance with internal revenue laws.

3. Background of Proposal

Enforcement of our tax laws relies heavily on a system of self-assessment. Limited auditing and the deterrent effect of civil and criminal sanctions have provided some assurance that taxpayers assess their respective taxes correctly under the law by filing accurate returns annually. These measures, however, are inadequate to provide assurance of proper assessment when taxpayers rely on third party preparers.

The existing statutory sanctions (other than criminal penalties) in cases of negligence or fraud are based on a presumption that any deficiency in tax results from acts of the person liable for the tax, and consequently such sanctions take the form of additions to the tax or penalties assessable against the taxpayer. However, as commercial preparers become more involved in the assessment process, competitive pressures to produce refunds may result in a preparer becoming negligent or resorting to fraud of which the taxpayer himself is unaware.

The only sanctions that are now applicable to deter unscrupulous tax return preparers are criminal provisions. The traditional statutory sanction for application against tax return preparers is section 7206 (2) of the Internal Revenue Code which makes it a felony to "willfully" aid or assist in the preparation of a return which "is fraudulent or is false as to any material matter." The penalties are a fine of not more than $5,000 and imprisonment for not more than three years. Section 7206(2) provides adequate criminal penalties for preparers of false returns. However, criminal penalties are often inappropriate, cumbersome, or ineffective.

Because of the difficulty of applying criminal penalties, until the last year or so, the government proceeded against only a small number of the most flagrant frauds by tax return preparers. Recently, the enforcement effort has been substantially increased. This stepped-up enforcement effort has been successful, but it has not eliminated the problem.

The typical tax return preparer who comes under suspicion of fraud is one who confines himself to preparing returns for wage earners. In most cases, he is not capable of preparing complicated returns. He generally solicits business by claiming that he can get the taxpayer a refund. He usually does obtain a refund, but only because he deducts from the taxpayer's wages fictitious amounts for charitable contributions, medical expenses, casualty losses or extra exemptions.

The proposed legislation will attack this problem by applying to tax return preparers sanctions that are less severe and easier to administer than criminal sanctions.

4. LICENSING AND REGISTRATION PROPOSALS

Proposals have been made from time to time to subject tax return preparers to licensing or registration requirements. There are undesirable aspects of such requirements, and the proposed legislation will reach the same objectives at a lower cost, both to the government and to tax return preparers.

It is questionable whether a licensing program would be more effective than the proposed legislation in protecting the revenue. However, it is clear that a licensing program would be much more costly. Licensing would be effective only if accompanied by strictly enforced standards of performance and integrity. It has been estimated that there are over 200,000 tax return preparers, and that the direct cost of a minimal licensing program would be at least $17.5 million per year. Imposition of such a direct cost on the Internal Revenue Service would reduce other Internal Revenue resources in the auditing area, and would cause a revenue loss of about six times as much, or $105 million per year.

In terms of protecting taxpayers from unscrupulous tax return preparers, a licensing program may indeed be counter-productive. The fact that a preparer satisfies an examination, character investigation, and other requirements for a license would justify only minimum confidence that all unscrupulous preparers have been excluded. In all likelihood, few dishonest tax return preparers would have difficulty satisfying normal character investigations. With respect to those unscrupulous preparers who are mistakenly licensed and given official recognition of competence and integrity, a licensing program would be against the public interest.

A licensing program would essentially provide only two occasions for excluding an unscrupulous preparer from the preparation business. The first occasion would be upon his application for a license. The second occasion would be when experience calls for a suspension of his license. The injunction element of the proposed legislation will effectively provide the second occasion.

The proposed requirements of the tax return preparers' identification number on each return prepared and a list of employees who are tax return preparers will achieve virtually the same result as a registration program.

Technical Explanation of Proposal

1. SIGNATURE, IDENTIFICATION NUMBER AND INFORMATION RETURN

Section 6061 of the Code currently requires returns to be signed in accordance with forms or regulations. This authority for requiring a preparer's signature will be supplemented by an amendment to section 6109 that will require the preparer to include his taxpayer identification number on each return he prepares. The number placed on the return will be either the taxpayer identification number of the particular individual who was responsible for the preparation of the return or the taxpayer identification number of his employer or both such numbers, as may be prescribed by regulation. A penalty of $25 will be imposed for each failure without reasonable cause to sign a return or to include the proper identification number.

A tax return preparer who has employees who are tax return preparers will be required to file an annual information return listing the names and taxpayer identification numbers of those employees. A tax return preparer who operates more than one office will also be required to indicate the particular office to which each such employee was assigned. The information returns will be filed with respect to each 12-month period ending on June 30 and will be due on the following July 31. The penalty for failure to file a timely return will be $100, plus $5 for each employee name, number or place of work omitted, with a maximum of $20,000.

The signature and identification number requirements and the information return will furnish the Internal Revenue Service with a convenient reference to all returns prepared by a given tax return preparer.

2. COPY OF RETURN

The proposed legislation will require a preparer who is required to sign a return in accordance with section 6061 of the Internal Revenue Code to give to the taxpayer a copy of any return prepared for such taxpayer by the preparer. The delivery will have to be made at the time the return is signed by the taxpayer. This requirement is intended to stop the current practice of many preparers of having the taxpayer sign the return form before it is prepared. Such practice is undesirable because it discourages taxpayer review of the return and facilitates negligent or fraudulent preparation without the taxpayer's knowledge. A penalty of $25 will be imposed for each failure to furnish a copy of the return to the taxpayer.

3. PENALTIES

The proposed legislation will add a new section to the Internal Revenue Code to provide civil penalties for preparer misconduct. The new section will adopt some of the language and concepts of section 6653(a) presently applicable to "negligence or intentional disregard of rules and regulations" by taxpayers. It is expected that many of the standards that have developed under section 6653(a) will carry over to the new section. However, the legislation will not charge preparers with a duty of care as extensive as that required of taxpayers. A preparer's obligation will be to process facts relating to a taxpayer's financial affairs on a return in a manner that reflects a proper application of the internal revenue laws, but a preparer will not have a duty to collect all relevant facts if the taxpayer does not furnish them or to verify those that are furnished. A penalty will be imposed on tax return preparers for "negligent or intentional disregard of rules or regulations" and will be the flat amount of $100 per return.

The legislation will also provide a civil penalty where a preparer willfully attempts in any manner to evade, defeat, or understate a tax liability in connection with the preparation of a return or claim for refund. The penalty will be applicable regardless of whether the taxpayer knows of or authorizes such willful understatement of tax. Since the provision will apply to a willful attempt to defeat or understate a tax with respect to any tax return, the penalty could be imposed as a result of any written or oral information which is directly or indirectly connected with a return. The penalty will be the flat amount of $500 per return.

All the existing criminal sanctions of the United States Code will continue to be available.

4. DEFINITIONS

The term "tax return preparer" will be defined to include those persons who participate in the preparation of a return by receiving information from the taxpayer, evaluating such information, or putting it in the form of a return or claim for refund and those persons supervising or reviewing such process. The term will also include the employer of such persons. The term will be restricted, however, to persons who provide such services for compensation payable by the taxpayer for whom the return is prepared. Thus, the penalties will not be applicable, for example, to persons who render free assistance to fellow employees in the course of their employment duties. The following will be specifically excluded: (1) a person who renders mere mechanical assistance, such as a typist; (2) a person who renders mere processing assistance, such as computer services, to preparers in general without having a direct business contact with any given taxpayer; and (3) a person who prepares his employer's return as part of his employment duties. This definition will not apply to section 7216 of the Internal Revenue Code (relating to Disclosure or Use of Information by Preparers of Returns) which, for different purposes, is directed toward a broader group of persons.

The term "understatement of tax" which is a factor in determining the applicability of the penalties for improper tax return preparation will also be defined. Use of the terms "deficiency" and "underpayment" will be avoided because their meanings are specified elsewhere in the Internal Revenue Code and are inappropriate in this context. The objective of returns and related information is the self-assessment of the correct tax. The preparer may contribute to the understatement of the correct tax by fraudulently understating gross income, or exaggerating deductions. The preparer also may fraudulently claim a credit against such tax, even when the tax is stated correctly. Consequently, the term "understatement of tax," will be defined as the amount of correct tax that should be stated on the return plus the amount of any claimed, but not allowable, credit, less the amount of tax actually shown on the return. An understatement may exist regardless of whether a deficiency has been assessed against or collected from the taxpayer.

5. PROCEDURAL PROVISIONS

The proposed legislation will provide that deficiency procedures, and consequently Tax Court review, do not apply with respect to any of the new penalties provided. Similar statutory waiver of the deficiency procedures and Tax Court review has been enacted with respect to other penalties, for example, sections 6676, 6677, and 6679.

The legislation will provide that claims for refund of penalties must be filed in accordance with regulations. It is anticipated that regulations will require a separate claim for each penalty imposed if it becomes desirable to require a separate statement of the grounds for a claim for refund of each of several different penalties imposed in connection with several different tax returns. The legislation will place the burden of proof on the preparer in a suit for refund of any of the penalties.

In general, the period of limitation for assessment will expire three years after the time the return or claim for refund, with respect to which the penalty is imposed, was filed. However, the unlimited period under section 6501(c)(2) of the Internal Revenue Code for assessment in the case of a willful attempt to evade or defeat a tax will apply to the $500 penalty assessed for willful attempts to evade tax. (By reason of section 6671(a) of the Internal Revenue Code, the reference to "tax" in section 6501(c)(2) will refer to such penalty.)

The period of limitation for a claim for refund of any penalty imposed under this legislation will generally be three years from the time it is paid. However, if the penalty is imposed with respect to a taxpayer's return, a claim for refund of such penalty may be filed within one year after the expiration of the period within which the taxpayer may file a claim for refund with respect to that return. This measure will in many cases provide the preparer with an opportunity to benefit from the taxpayer's effort to prove an erroneous determination with respect to the return in question.

6. INJUNCTIONS

The proposed legislation will provide for injunctive action against unscrupulous or patently incompetent preparers. Specifically, it will authorize the Secretary or his delegate to bring an action in a United

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States district court to enjoin from further preparation of returns any preparer who has engaged in conduct subject to penalties under the Internal Revenue Code or in any other similar conduct which substantially interferes with the administration of the internal revenue laws. Also, the injunction will be available against a tax return preparer who misrepresents his qualifications, particularly his eligibility to practice before the Internal Revenue Service. Guarantees of a refund will also warrant the action for injunction. An injunction will be available regardless of whether the penalties were actually assessed. Under section 7402(a) of the Internal Revenue Code, district courts of the United States presently have jurisdiction to issue orders of injunction. Under the proposed legislation, this jurisdiction will be available whether or not the action is connected with an action for other remedies.

A tax return preparer will be able to avoid an injunction by posting and maintaining a $50,000 bond.

X. Foreign Tax Haven Manufacturing Corporations

General Explanation

1. SUMMARY OF PROPOSAL

Under the proposal, the United States shareholders of a controlled foreign manufacturing corporation which either benefits from a tax holiday or similar tax incentive or which is manufacturing abroad for sale to the United States and benefits from significantly lower foreign income taxes will be taxed currently on the earnings and profits of such corporation. The intent of this provision is to tax those manufacturing corporations which have gone abroad to take advantage of tax benefits.

The new rules will apply to a controlled foreign corporation engaged in manufacturing or processing outside the United States only in years in which more than 10 percent of the unadjusted basis of the tangible property and real estate of the corporation at any time during the taxable year is used in its manufacturing or processing operations.

Current taxation will occur if either of two alternative circumstances exist:

(1) *Tax Holidays.* There is a new investment in a manufacturing or processing facility abroad after April 9, 1973 (or, in the case of a facility in existence on that date, there is or has been an amount of additional investment in excess of 20 percent) made during a period in which a tax holiday or other tax investment incentive was in effect with respect to the manufacturing or processing operations. If these conditions are met the current taxation will apply to all future years in which the corporation is a manufacturing or processing corporation.

(2) *Runaway Plant.* There is a new investment in a manufacturing or processing facility abroad after April 9, 1973 (or, in the case of a facility in existence on that date, there is or has been an amount of additional investment in excess of 20 percent) and for the year for which current taxation is to apply the effective foreign tax rate applicable to the corporation is less than 80 percent of the United States tax rate and more than 25 percent of the corporation's gross receipts are realized from the manufacture of products destined for the United States. Whether the conditions of this alternative have been met is to be determined on a yearly basis; thus a corporation could be taxed currently in year one because the effective foreign tax rate applicable to it is significantly lower than the effective United States tax rate and more than 25 percent of its gross receipts are derived from

sales to the United States, while in year two it would not be taxed currently if only 10 percent of its gross receipts were derived from sales to the United States.

As described below, a manufacturing branch of a foreign corporation located outside the country of incorporation will be treated as a separate corporation for purposes of applying these rules.

The provision would also include a separate limitation on the foreign tax credit; so that income treated as distributed under this provision would not be taken into account for the overall foreign tax credit computation, but would be separately computed.

The Treasury Department would be granted authority to determine which foreign practices constitute tax investment incentives. This authority could be exercised by determinations with respect to general categories of incentives, as for example, an exemption or reduction of tax for a period of time or certain cash grants. The authority could also be exercised by determinations with respect to specific incentives in specific countries, including local and regional incentives. Incentives would include those provided by law or regulations or individually negotiated arrangements. The fact that there is a generally low rate of tax in a country would not be considered by itself a tax incentive. The Treasury would have authority to exempt tax benefits which are determined to be insignificant in amount or effect and to make determinations prospective in appropriate cases, and would be prepared to rule on the status of tax arrangements under which foreign investments are made. The proposal would give the President the authority to exempt from the operation of the "runaway plant" provision companies in a particular industry if he determines that it is in the public interest to do so.

Finally, the legislation would preserve discretion in the Executive, subject to Senate approval, to enter into bilateral income tax treaties which would make these rules inapplicable to specific incentives, in order to promote investment in appropriate situations and with appropriate safeguards.

2. PURPOSE AND EFFECT OF PROPOSAL

Enactment of the proposed current taxation of foreign controlled manufacturing corporations would eliminate the tax advantages which some United States controlled manufacturers can obtain by investing in countries offering tax holidays, or by investing in manufacturing facilities in countries with low tax rates where a significant portion of their products are intended for the United States market. At the same time, the proposal will allow United States controlled foreign manufacturing corporations to continue to operate abroad without current United States taxation in cases in which the investment is not tax motivated. As a general rule United States enterprises operating abroad now pay substantial foreign income taxes. In most cases, United States businesses invest abroad not because of an attractive tax situation, but because of business opportunities and marketing requirements.

While there will be some revenue gains to the U.S., the thrust of the proposal is to deter tax motivated foreign investment. It is not anticipated that this proposal will have a substantial revenue impact.

3. BACKGROUND OF PROPOSAL—PRESENT LAW

Under existing law, the income of foreign corporations operating abroad is generally not subject to current United States taxation, regardless of whether the shareholders of the corporation are U.S. or foreign. The Subpart F provisions of the Internal Revenue Code, adopted by the Congress in 1962, represent an exception to this general rule in the case of certain tax haven activities conducted by corporations controlled by U.S. shareholders.

The Subpart F provisions generally exclude the earnings of controlled foreign manufacturing subsidiaries from current taxation on income realized from the manufacture and sale of products. This distinction was based upon the accurate analysis that the great bulk of United States investment abroad in manufacturing and processing facilities is located in countries which impose substantial corporate income taxes. Investment decisions in such cases are made on the basis of general business considerations in which tax burdens are a neutral factor. However, there has been an increasing tendency by both developing and developed countries to deviate from their normal corporate tax structures by offering tax related incentives, such as holidays from taxation, to attract foreign investment. This has led in some significant cases to United States companies making investments in manufacturing facilities abroad in order to obtain special tax benefits. These tax incentives in combination with the U.S. tax system that does not tax the income of a foreign subsidiary until it is repatriated can lead to distortions in investment decisions. Similiarly, low tax rates, particularly in combination with other factors such as accessible low cost labor, have led some U.S. companies to move production from U.S. sites to foreign locations where they produce largely for the U.S. market. The proposed legislation, which applies to foreign tax holiday incentives and production for the U.S. from low tax countries, is intended to remove the income tax factor from influencing foreign investment.

Technical Explanation

BASIC FRAMEWORK

The proposal will add new rules to the Internal Revenue Code to require current United States taxation of earnings and profits of controlled foreign manufacturing corporations which benefit from tax holidays or constitute runaway plants. The new rules will provide that a United States shareholder (i.e., a 10 percent shareholder who is a United States person) of a controlled foreign corporation will be treated as having received his pro rata share of the corporation's earnings and profits for a taxable year (with limitations discussed below) if the corporation qualifies for such year as a "foreign tax haven manufacturing corporation" as defined under the proposal. This would be accomplished by incorporating the new rules into the existing Subpart F of the Internal Revenue Code.

The proposal would not create a new class of Subpart F income since it is intended that no limitation on Subpart F income shall apply unless expressly made applicable by the new legislation. Thus, the so-called 70–30 rule contained in section 954(b) (3), the significant purpose exception of section 954(b) (4), and the minimum distribution provisions of section 963 would not apply.

Foreign Tax Haven Manufacturing Corporation

A. Basic Framework

The proposal will provide for current taxation of United States shareholders on earnings and profits of a controlled foreign corporation for taxable years in which the corporation qualifies as a foreign tax haven manufacturing corporation as defined under the new rules. A controlled foreign corporation will be a foreign tax haven manufacturing corporation for any taxable year beginning after December 31, 1973, if it is engaged in manufacturing or processing operations outside the United States during the year and if:

(i) *Tax Holiday.* The corporation is allowed a foreign tax investment incentive such as a tax holiday (or became a foreign tax haven manufacturing corporation under this provision in a prior year), or

(ii) *Runaway Plant.* The effective foreign tax rate applicable to such corporation for the taxable year is significantly lower than the statutory United States corporate tax rate and more than 25 percent of the corporation's gross receipts for the year are from the manufacture or processing of property which is sold or leased for ultimate use, consumption, or disposition in the United States.

B. Engaging in Manufacturing or Processing Operations

A controlled foreign corporation will be regarded as engaged in manufacturing or processing operations if, at any time during the taxable year, the unadjusted basis of tangible property and real property used in its manufacturing or processing operations exceeds 10 percent of the unadjusted basis of all tangible property and real property of the corporation as of that time. Included property is property described in section 1231(b) (1) (without regard to the holding period for such property). Property will be included in the test regardless of whether the corporation has title or holds merely a lease-hold interest.

If the property is acquired other than by a purchase, the cost of the property will be deemed to be its fair market value on the acquisition date. For example, if property is acquired as a contribution to capital its cost will be its fair market value on the date of such contribution. The cost of leased property is the lessor's cost.

C. Increased Investment

The provisions apply to United States shareholders of controlled foreign corporations that make a new investment or have additional investment (including replacements) in existing manufacturing or processing operations after April 9, 1973. It is immaterial whether the source of such investment is new capital or reinvested earnings.

For purposes of the Runaway Plant rule, a foreign corporation will be treated as having additional investment in existing manufacturing or processing operations if, at any time after April 9, 1973, the sum of the unadjusted basis of tangible property and real property acquired after such date for use in such operations exceeds 20 percent of the unadjusted basis of tangible property and real property used in such operations on April 9, 1973. For purposes of the Tax Holiday rule, the current taxation will apply only if the additional investment exceeds the 20 percent increase in tangible property and real property in a year in which a tax incentive is in effect or if the investment was made in contemplation of a tax incentive.

The test will be determined on the basis of comparing assets of the corporation's entire manufacturing or processing operations or on the basis of a single plant or production unit which lends itself to separate treatment. However, the facility which, at any time, serves as a basis for asset comparison must have been in existence and identifiable as such on April 9, 1973. Otherwise, the entire facility is a new investment. Once the test is met as to a single plant or production unit, the current taxation will apply to the entire corporation (or branch if the branch rule applies).

The proposal will provide that a foreign corporation acquires property when it takes possession in any transaction, including a lease, purchase, or capital contribution, regardless of whether the basis of the asset in the hands of the controlled foreign corporation is determined by reference to its basis in the hands of any other person or to the basis of any other property. Consequently, the corporation is treated as acquiring new investment after April 9, 1973, if it acquires property after that date in a like-kind exchange under section 1031 or in an involuntary conversion under section 1033. In such cases, the amount of the acquisition will be the fair market value of the property acquired.

The acquisition of the stock of an existing foreign corporation is to be treated as a new investment with respect to determining the status of that newly acquired corporation under these rules.

D. Tax Incentive Requirement

(i) Tax Holidays

A corporation is a foreign tax haven manufacturing corporation if the new investment or any investment in excess of a 20 percent increase in investment was made during or in anticipation of any taxable year for which a foreign tax investment incentive was allowed or allowable. Under this rule, if a foreign corporation has existing investment on April 9, 1973, and has an increase in investment of 20 percent in 1974, whether or not there is a foreign tax investment incentive, and has a 10 percent increase in investment in 1975 when a foreign tax investment incentive was in effect, then the corporation would become a foreign tax haven manufacturing corporation as of 1975. Once this requirement is met the income of that corporation will be taxed currently thereafter regardless of whether the incentive is in effect for a subsequent year, unless the corporation ceases to be engaged in manufacturing or processing operations.

An investment in anticipation of a tax incentive would be treated the same as one made during a year in which the incentive applies. This would prevent the foreign country from announcing the incentive in advance of its effective date, or agreeing with the corporation to postpone the effective date of the investment incentive until after a significant amount of increased investments were made. It would also make the provision applicable where the foreign country postpones the effective date of a tax holiday because the corporation anticipates having losses in the year the investment is made.

In order to give the Secretary of the Treasury or his delegate broad authority to determine by rules or regulations the general categories of foreign tax investment incentives and also whether any specific practice or benefit constitutes such an investment incentive, the proposal will define a foreign tax investment incentive in broad terms. It will include any income tax related benefit, however effected, which is intended to encourage or has the effect of encouraging investment in the foreign country which provides the benefit, and whether or not granted to nationals as well as foreigners. Such a benefit may be provided by law, regulation, or individually negotiated arrangements. However, the fact that there is a generally low rate of tax in a country will not be considered by itself a tax incentive. Examples of benefits or practices of the type which constitute investment incentives include tax holidays (which are partial or complete exemptions from tax for a period of time); deductions for reinvestment reserves; certain grants; and certain depreciation rules bearing no relationship to useful life.

(*ii*) *Runaway Plants*

The second circumstance under the proposal which will result in current taxation also applies where there is new investment or additional investment after April 9, 1973. Under this alternative test, a corporation is a foreign tax haven manufacturing corporation if (a) the corporation is subject to an effective foreign tax rate which is significantly lower than the United States corporate tax rate and (b) the corporation's manufacturing or processing operations involve substantial production destined for use, consumption or disposition in the United States. Both the significantly lower tax rate requirement and the export to the United States requirement are tested annually.

The foreign tax rate will be considered to be significantly lower for a taxable year if the effective foreign tax rate during such year is less than 80 percent of the statutory U.S. corporate tax rate (the current statutory U.S. tax rate for this purpose is 48 percent and 80 percent would be 38.4 percent). The foreign effective rate is to be determined by dividing the foreign income tax paid or accrued by the taxable income of the foreign corporation determined by U.S. tax accounting rules for determining a U.S. corporation's taxable income from sources outside of the United States under chapter 1 of the Code and without regard to the provisions of subchapters F, G, M, N (except Part I), S, and T. Thus, if the foreign tax paid on $100 of income determined under U.S. tax rules was $42, the foreign effective rate would be 42 percent or more than 80 percent of the present U.S. statutory rate.

(*iii*) *Runaway Plant—substantial production for export to the United States*

Under the proposal, the manufacturing or processing operations of the corporation will be considered to involve substantial production for export to the United States if 25 percent of its gross receipts for the year are realized from the manufacture or processing of property which is sold or leased for ultimate use, consumption, or disposition within the United States. For purposes of this rule, it is not necessary that the corporation itself sell the property. In other words, the corporation could be manufacturing for the seller on a subcontract arrangement. Furthermore, the property does not have to be sold directly to United States persons so long as there is a reasonable expectation that its ultimate destination is the United States.

Branch Rules

If the controlled foreign corporation is a foreign tax haven manufacturing corporation for the taxable year with respect to its investment within the country in which it is incorporated, then each United States shareholder's share of its earnings and profits for such year (as limited under provisions discussed below) will be attributed to the shareholder, even though part of such earnings and profits do not represent income from the manufacturing or processing operations and even if part of such earnings and profits are from outside of the country of incorporation. Thus, if the manufacturing or processing operations subject to a tax benefit are located within the country of incorporation, the earnings and profits taxed currently under the new provisions would include all earnings and profits derived from other types of operations (*e.g.*, real estate operations) regardless of whether such operations are carried on by branches within the country of incorporation or branches without the country of incorporation.

A special rule will apply, however, where a controlled foreign corporation is not a foreign tax haven manufacturing corporation with respect to its activities in the country of incorporation and is doing business in other foreign countries. If, upon treating activities of a branch in another country as a separate corporation, they would qualify as the activities of a foreign tax haven manufacturing corporation, then current taxation under the proposal will be applied separately to the earnings and profits attributable to such branch activities. Thus, a United States shareholder of a controlled foreign corporation which has a branch located in a foreign country outside the country of incorporation, the activities of which if treated as a separate corporation would be deemed those of a foreign tax haven manufacturing corporation, shall be subject to tax on his pro rata share (based upon his ownership of the controlled foreign corporation itself) of earnings and profits which are derived from the branch activities in such other country.

AMOUNTS TAXED CURRENTLY—LIMITATIONS

The proposal will tax currently to United States shareholders the corporation's earnings and profits for the year (or earnings and profits of a branch treated as a corporation) determined in accordance with rules normally applicable to domestic corporations, subject to the following limitations or exclusions:

The amount of such earnings and profits will be reduced by the sum of the deficits in earnings and profits for prior taxable years beginning after December 31, 1972, and the excess of the sum of deficits in earnings and profits over the sum of earnings and profits (*i.e.*, any net deficit for taxable years beginning after December 31, 1969, and before January 1, 1973). However, any deficit in earnings and profits for a prior taxable year will not be taken into account for the taxable year to the extent that it had been taken into account to reduce earnings and profits of a preceding taxable year in determining the amount currently taxed under the new proposal or in determining the amount of subpart F income taxed under section 951(a)(1)(A). This exclusion is similar to the limitation under section 952(c).

The amount of earnings and profits for the taxable year is further reduced to the extent such earnings and profits represent income which has been subject to United States tax by reason of its being effectively connected with a trade or business within the United States.

The proposal will provide a limitation which is similar to section 951(a)(2) with respect to subpart F income. In part, it will exclude earnings and profits for a year which were derived during a portion of the year for which the corporation was not a controlled foreign corporation.

Section 959(a), without any amendment by the proposed legislation, would exclude from gross income the amounts of earnings and profits actually distributed to the extent that they represent earnings and profits which have been previously taxed to the shareholders under the new provisions. However, in order to specify when an actual distribution represents earnings and profits included in gross income under the new proposal, section 959(c) will be amended to provide that actual distributions are treated as made first out of earnings and profits that have been taxed currently under the new rules.

Limitation on Credit

Under section 960, without amendment by this proposal, the foreign tax credit will be allowed with respect to amounts taxed currently under the new rules as well as the other amounts taxed currently to United States shareholders under section 951(a). However, the proposal will amend section 904(f) to prevent a United States shareholder from using an excess foreign tax credit to offset its United States tax liability on the income currently taxed to it under these new rules. As is the case under existing law with respect to interest income and dividends from a DISC, the tax credit limitation is to be applied separately with respect to the amounts currently taxed under the new provisions to United States shareholders.

Special Rules

Under the proposal, the new rules will not be applied to tax currently United States shareholders on earnings and profits of a foreign corporation, and specific practices or incentives offered by foreign countries will not be included in the definition of foreign tax investment incentives, to the extent provided by any treaty or similar bilateral agreement to which the United States is a party which enters into force after April 9, 1973.

Furthermore, the proposal will provide that where it is in the public interest to do so the President may, by Executive Order, specify that the new rules do not apply to corporations within any industry to the extent their application depends solely on the corporation being a runaway plant (*i.e.*, subject to significantly lower foreign tax rates and having substantial production for export to the United States).

Under the proposal, the new rules will prevail over existing subpart F provisions, as well as the foreign personal holding company provisions, to the extent they would otherwise apply to the same earnings and profits.

XI. Recovery of Foreign Losses

General Explanation

1. SUMMARY OF PROPOSAL

Under the proposal, certain losses incurred by United States taxpayers operating abroad and deducted against domestic income would reduce foreign tax credits in later years when the taxpayer earns profits on these operations. Thus, United States companies will no longer be allowed to incur large losses in some years, reduce United States income in those years, and then use the foreign tax credit to offset United States tax in profitable years. In addition, certain losses previously deducted would be taken into income when the taxpayer disposes of the assets the use of which resulted in the losses.

The proposal will provide that if a taxpayer sustained a loss (whether ordinary or capital) in a foreign country or possession of the United States in a taxable year, or an over-all loss from foreign sources, then for purposes of computing the limitation on the foreign tax credit in succeeding years such loss would be taken into account in the succeeding taxable years as a reduction of the taxpayer's taxable income from sources within such country or possession or from over-all foreign sources, as the case may be. The amount of the reduction in any one year is not to exceed 25 percent of the taxpayer's income from such country or possession or from foreign sources, as the case may be, computed without regard to such reduction. The amount of the losses not taken into account shall be carried forward in the ten succeeding years for which the foreign tax credit is elected. Such a reduction will not be made, however, in any taxable year to the extent that the loss has been allowed by the foreign country where the loss was incurred and has thereby reduced the amount of foreign tax paid.

In cases in which material income producing assets which gave rise to the losses, or in which a substantial portion of the assets held for the production of income, are disposed of before the prior losses have been fully taken into account, the losses not previously taken into account would be included in the taxpayer's gross income from foreign sources in the year of disposition of the property. This would include cases in which the enterprise is transferred to a foreign corporation before the losses have been fully taken into account. Likewise, where a corporation which incurs losses and files its income tax return as part of a consolidated group of corporations in the year of the losses, and then, in a subsequent year, chooses to be treated as a "Possessions Corporation" under section 931 of the Code, the losses would be restored to the corporation as income from sources within the United States and taxed in that year by the United States.

2. PURPOSE AND EFFECT OF PROPOSAL

The enactment of the proposal would eliminate the tax disadvantage borne by the United States Treasury in some situations where taxpayers deduct from their United States income losses from overseas operations, and do not pay United States income tax on income earned in later years through the use of the foreign tax credit, or by disposing of the loss generating assets, or by electing to be treated as a "Possessions Corporation" under section 931 of the code. The proposal is designed to deal with the case of a taxpayer whose foreign operations are organized in such a way that the United States Treasury bears the burden of the losses while a foreign Treasury collects tax when the activity is profitable. The proposal does not deny the deduction for the losses, but, in effect, recaptures them if they are not taken into account for computing foreign taxes in later years.

3. BACKGROUND OF PROPOSAL

Under existing law, United States taxpayers may deduct losses from foreign transactions for purposes of computing their taxable income. Thus, the foreign losses reduce the United States tax on United States income. In addition, a United States taxpayer is allowed to credit against his United States tax on foreign income an amount equal to the United States tax imposed on the foreign income with respect to which the foreign taxes were paid. In the alternative, the foreign taxes may be deducted. The limitation may be computed either separately for each country (the "per-country" limitation), or on an overall basis (the "overall" limitation) under which all foreign income taxes and foreign source income are aggregated.

A taxpayer who is on the per-country limitation at the time a loss from a foreign transaction is incurred does not have to reduce the limitation for foreign taxes paid on foreign income from other countries as he would if he were on the overall limitation. Thus, he gets the full credit for other foreign taxes paid, plus the full deduction for the foreign losses. When the foreign operations in the country of loss become profitable, taxes are often paid to such country without taking into account the prior losses. The tax credit allowed by the United States for such taxes may effectively eliminate any United States tax on the income earned during the profitable period. The same result occurs in the case of a taxpayer on the overall limitation who has an over-all loss on his foreign operations. In such cases the United States bears the burden of the taxpayer deducting large losses which greatly reduce United States taxes, while the foreign country collects the taxes on the operation once it becomes profitable with the United States tax eliminated by the foreign tax credit.

It is also presently possible for taxpayers to incur large start-up losses in the early years of an operation in a foreign country, and then to incorporate the operation in the foreign country once it becomes profitable. In this case no United States tax would be paid, even if the foreign country takes the prior losses into account, unless the earnings were repatriated.

In much the same way it is presently possible for a domestic corporation deriving most of its income from sources within a possession of the United States to file a consolidated return with an affiliated group of which it is a member in a year in which it has losses and then to be treated as a "Possessions Corporation" under section 931 of the Code in years when it has income. A corporation qualifying as a possessions corporation, although incorporated in the United States, is not taxable by the United States on its foreign source income. This means that the losses are used to offset United States taxable income of the group while the income of the later years will not be considered as gross income for purposes of computing the United States tax.

Technical Explanation

1. basic framework

The proposal will not entail the denial of any losses in the year in which they are incurred. Instead, under the basic rule, where there is income in years subsequent to the loss years, the proposal would reduce the limitation on the foreign tax credit in those subsequent years. The proposal then defines what is meant by a foreign loss. Finally, the proposal will add a new section 84 to the Code which will provide for the inclusion in gross income of an amount equal to the amount of the losses where the property which incurred the losses is disposed of or in certain cases of corporations treated as possessions corporations under section 931 of the Code.

2. reduction in foreign tax credit limitation

The first case in which the prior years' losses will be taken into account is where foreign source income is earned in years succeeding the losses. In such a case there will be a reduction of the limitation on the foreign tax credit. To accomplish this the proposal will amend section 904(a) of the Code.

A. Reduction in limitation

The proposal will provide that, in the case of a taxpayer who in a prior taxable year beginning after December 31, 1973 (hereinafter referred to as the "loss year"), sustains a foreign loss (as defined in the proposal), the amount of the taxpayer's taxable income from sources within the foreign country or possession of the United States in which such loss was incurred or from sources without the United States, as the case may be, is to be reduced solely for purposes of determining the applicable limitation under paragraph (1) or (2) of section 904(a). The reduction is to be for each of the 10 succeeding taxable years for which the taxpayer chooses to take the benefits of the foreign tax credit provisions (secs. 901 through 906). The amount of the reduction is the lesser of the following:

(i) The amount by which 25 percent of the taxpayer's taxable income for such a succeeding taxable year from sources within such country or possession or from sources without the United States, as the case may be, exceeds the sum of the reductions made pursuant to this proposal for such succeeding taxable year in respect of foreign losses incurred in taxable years before the loss year, or

(ii) In the case of the first taxable year succeeding the loss year, the amount of such loss, and in the case of any taxable year succeeding such first taxable year, the portion of such loss not used to make a reduction under the proposal in any taxable year occurring after the loss year and before such succeeding taxable year.

The impact of these limitations is that the taxpayer's foreign tax credit in any year from any one country will be at least 75 percent of what it would have been without regard to this proposal. This method of computing the reduction in the limitation follows an ordering rule which is analogous to the operation of section 170(d). The proposal also sets forth the method for determining taxable income.

Example.—X corporation, a U.S. corporation, sustains a net loss of $100 on its operations in Country A in 1974. X deducts that loss from other income earned in the U.S. in 1974. In 1975 X derives taxable income of $200 from its operations within Country A and pays income tax of $100 (assuming a rate of tax of 50 percent) to Country A. Country A does not provide for the carryover of losses. In addition, in 1975 X has income from sources within the U.S. of $200. X's taxable income for purposes of computing its U.S. tax is $400, and its tax, before reduction by the foreign tax credit, is $200 (assuming a rate of tax of 50 percent). Under the proposal, the limitation on X's foreign tax credit for 1975 is $75, computed as follows:

$$\frac{150 \text{ (Taxable income from A reduced by amount of the loss, but limited to 25\% of taxable income from A)}}{400 \text{ (Worldwide taxable income)}} \times 200 = 75$$

The additional $50 of the 1974 loss would be taken into account in succeeding years.

The proposal will operate to reduce the tax credit limitation otherwise available whether or not the taxpayer uses the per-country or overall limitation in a succeeding taxable year to which the proposal applies. This is true regardless of which limitation was used in the loss year, and even if the taxpayer had not chosen to take the benefits of the foreign tax credit provisions for the loss year. The 10-year limitation on carryovers of foreign losses would run only where the taxpayer chooses to take the benefits of the foreign tax credit provisions for each year of the 10-year period. The 10-year limitation is tolled with respect to years for which the tax credit provisions are not chosen. Thus, if a taxpayer experiences a loss to which this proposal applies in 1974 and then does not choose to take the benefits of the foreign tax credit provisions in 1975 but does in 1976, the 10-year period would begin to run in 1976.

B. Foreign losses to be taken into account

The proposal will define "foreign loss" to mean the amount by which the gross income for the taxable year from sources within a foreign country or possession of the United States or from sources without the United States, as the case may be, is exceeded by the sum of the expenses, losses, and other deductions properly apportioned or allocated thereto and a ratable part of any expenses, losses, and other deductions which cannot definitely be allocated to some item or class of gross income. For this purpose the principles of sections 862 and 863 and the regulations thereunder are to be followed.

For purposes of the proposal, section 1212(b) is to be treated as providing for a capital loss carryover in the case of taxpayers other than corporations. For purposes of computing the taxpayer's foreign tax credit limitation under section 904, amounts included in gross income by reason of new section 84 and sections 172 and 1212 are to be taken into account in determining the taxpayer's entire taxable income for the taxable year (whether the taxpayer uses the per-country or overall limitation.) New section 84 and sections 172 and 1212 are also to be taken into account in determining the amount of the taxpayer's tax under chapter 1 of the Code before the allowance of credits.

However, once a loss is taken into account as gross income under new section 84, such amount will not again be taken into account to reduce the foreign tax credit in subsequent years.

The proposal will also provide that the taxable income for a taxable year referred to in the proposal from sources within a foreign country or possession of the United States or from sources without the United States, as the case may be, shall be determined without regard to new section 84 and without regard to any net operating loss deduction allowable under section 172(a) or any capital loss carrybacks or carryovers to such year under section 1212. Thus, any amount included in gross income pursuant to new section 84 shall be considered an item of gross income for all purposes except the determination of taxable income in the numerator of the credit limitation pursuant to the new limitation.

The proposal will provide that the Secretary or his delegate shall by regulations prescribe, for purposes of the new limitation and new section 84, the manner for carrying a foreign loss from sources within a foreign country or possession of the United States for a taxable year to another taxable year to which the limitation provided by section 904(a)(2) applies, or for carrying a foreign loss from sources without the United States for a taxable year to another taxable year to which the limitation provided by section 904(a)(1) applies.

The proposal will provide that the Secretary or his delegate shall by regulations prescribe the manner by which a foreign loss is allocated among countries and classes of income for purposes of the new limitation and new section 84.

It is intended that foreign losses will be carried to succeeding taxable years to which the new limitation applies, to be allocated in such a year (and absorbed in intervening years) pursuant to regulations to be prescribed by the Secretary of the Treasury or his delegate.

3. CERTAIN DISPOSITIONS OF PROPERTY

The proposal would add a new section 84 to the Code to provide for the inclusion in gross income of the taxpayer of an amount equal to the defined losses. If during any taxable year property which gives rise to the loss which would normally be taken into account for purposes of this proposal is disposed of, and if the amount of such loss exceeds the amount, if any, by which the taxpayer's taxable income was previously reduced under this proposal in determining the applicable limitation under section 904(a)(1) or (2) for that taxable year and preceding taxable years by reason of such loss, an amount equal to such excess is to be included in gross income for the taxable year of disposition as income from sources within the foreign country or possession of the United States in which such loss was incurred or as income from sources without the United States, as the case may be. The term "disposition" will include sales or exchanges, reorganizations, and transfers of property, such as a transfer of a foreign branch to a newly incorporated affiliate of the transferor corporation. A disposition will be considered to have occurred when a corporation has filed a consolidated return with an affiliated group of which it is a member in a year in which it has losses and then chooses to be treated as a "Possessions Corporation" under section 931 of the Code in a year in which it has income.

The proposal will provide that no amount is to be included in gross income under new section 84 in any case in which the property which is disposed of is not a material factor in the realization of income, or is not a substantial portion of the assets held for the production of income by the taxpayer.

Example.—In taxable year 1974 domestic corporation N sustains a $100 loss in foreign country Y. It is assumed that for 1975 N is required under this proposal to reduce its foreign tax credit limitation by the amount of $40 and for 1976 N is required to reduce such limitation by $20. In 1976, N disposes of property which gave rise to the loss occurring in 1971. For 1976, N must include in gross income $40 ($100 less $60).

4. CONFORMING AMENDMENT

The proposal will amend section 904(d) (relating to carryback and carryover of excess tax paid) to provide that (1) for purposes of computing the amount of tax to be carried, the applicable limitation under section 904(a) is to be determined without regard to the new limitation, and (2) for purposes of determining the amount of excess tax deemed paid or accrued in a year to which it is carried, the applicable limitation under section 904(a) is to be determined by applying the new limitation created by this proposal.

5. REVENUE EFFECT

There will be a phasing in of the revenue impact following the effective date of this proposal with the additional revenues rising to at least $100 million annually after five years.

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TESTIMONY BY THE HONORABLE WILLIAM E. SIMON
DEPUTY SECRETARY OF THE TREASURY BEFORE
THE SUBCOMMITTEE ON PUBLIC LANDS OF THE
HOUSE COMMITTEE ON INTERIOR AND INSULAR AFFAIRS
MONDAY, APRIL 30, 1973

Mr. Chairman and Members of the Committee:

It is a privilege to appear before this Committee to present my views on a topic of intense national concern. The United States urgently needs Alaska's North Slope oil if we are to deal effectively with our emerging energy crisis. Further, it is critical that legislation be passed quickly to allow construction to commence on a trans-Alaska pipeline.

There is no question that this country critically needs its North Slope oil. Every barrel of that oil we can produce will reduce imports by a like amount. This Committee undoubtedly has heard many estimates of the rapidly increasing import levels we face if we don't reverse current trends. Estimates of oil imports in 1980 range between 10 and 15 million barrels per day. Imports of this magnitude could endanger our security and economic well-being.

These projections, however, assume that we do nothing and that present trends continue. Actually, we can take several steps to increase domestic supplies and decrease imports. The President has already moved decisively to increase energy supplies. The Congress can contribute substantially by passing legislation enabling us to initiate needed programs, such as the Alaska pipeline. The Alaska pipeline alone will not solve our energy problem. It will, however, materially ease our monetary and energy security problems. So let us begin with its construction now.

The United States faces serious economic and monetary problems today because of our rapidly deteriorating balance of payments. We cannot afford to permit these deficits to go on mounting unnecessarily by delaying the development of already proven domestic resources.

In the past this country has enjoyed energy security because of our shut-in production potential. This potential has now disappeared. Imports are soaring. And several countries upon which we may have to depend for future energy supplies have declared that they intend to use their oil as a political weapon. Can we afford to become increasingly dependent upon such countries by deliberately delaying the development of the largest find of oil in U. S. history?

The significance of our North Slope energy potential is not just the 2 million barrels per day that could someday be delivered through an Alaska pipeline. Nor is it the 10 billion barrel proven reserves in the Prudhoe Bay field. Alaska has far greater potential reserves. Projections indicate that the North Slope has potential reserves of as much as 80 billion barrels. Thus, we might someday achieve an Alaska production of 5 to 8 million barrels per day.

This, in turn, could possibly reduce our first round balance of trade outflows by $7 billion to $12 billion per year. Production at maximum rates would also materially strengthen our bargaining position with producing countries and increase our ability to meet any supply disruptions with minimum adverse economic consequences. It could, in short, go a long way toward solving our energy problems.

But to obtain the North Slope's full potential during the critical period of the 1980's, we must begin development now.

The question at this point is not whether we should develop our North Slope reserves. We should. We must. The question now being debated is how best to develop these reserves.

Some have contended that a pipeline route through Canada would be superior to an Alaska pipeline. Deliberations concerning the best pipeline route are necessary to make the right decision. All alternatives must be analyzed in terms of our overall national interest, not in terms of regional or private interests. Our analysis must consider economic and security interests as well as environmental interests. Timing is a crucial component of each of these factors. Given sufficient research and development, we can reasonably expect to develop our vast coal, oil shale, and nuclear resources so as to provide rapidly increasing portions of our energy needs by the late 1980's. Before this, however, we will face a critical period during the late 1970's and the 1980's. The long lead times for exploration and development, for constructing a transportation system, and for administrative approvals must be weighed against our rapidly increasing energy needs during this period, when our needs will be greatest.

There are many reasons why I believe that an Alaska pipeline is clearly superior to a pipeline through Canada. I will briefly mention several of these reasons and will then amplify my remarks concerning economics, security, and the balance of payments -- areas in which I have the greatest interest because of my responsibilities as Deputy Secretary of the Treasury and Chairman of the Oil Policy Committee.

1. Building a Canadian pipeline instead of the Alaska pipeline would delay receipt of vitally needed Alaska crude oil by from three to five years and could significantly delay full development of our vital Alaska North Slope oil and gas reserves by as much as 10 years.

Both pipelines, as presently planned, could transport the same volume of oil. But they would not transport the same volume of Alaska oil. Canada would control the portion of any pipeline transversing Canada and would insist on reserving 50 percent of the throughput volume for Canadian oil.

The delayed starting date of a Canadian pipeline would defer further exploration and development of our North Slope resources at a time when security and international economic considerations dictate that we should be increasing exploration and development. Such delays would reduce this country's energy security and could have serious economic consequences in the event of a disruption of foreign supplies after 1978.

2. Our analysis indicates that the Alaska pipeline would provide substantially greater economic benefits to this country than a pipeline route through Canada. Assuming a delivery of 2 million barrels per day, the Alaska pipeline would result in increased benefits of up to $2.4 billion per year in 1980. By 1988, cumulative net benefits of the Alaska pipeline, over and above the Canadian pipeline, would approach $15 billion. This estimate will be elaborated later.

3. A Canadian pipeline would require a dollar outflow of several billion dollars during the construction period.

4. The Alaska pipeline would reduce our first round balance of trade outflows by about $2.3 billion per year over and above whatever balance of payments savings might be made possible by the Canadian pipeline. In view of our present and projected monetary problems, such a reduction of future cash drains could be vital to our economic health.

5. In the event of a major foreign supply disruption we can assume that emergency conservation procedures would be initiated to reduce demand. With the Alaska pipeline any surplus in District V (the West Coast) resulting from reduced demand could easily be transported through the Panama Canal and distributed through the existing pipeline network to points of need in the U. S. East and Midwest.

Conversely, with a trans-Canadian pipeline, any surplus in District II (the mid-Continent) resulting from reduced demand during an emergency could not be readily distributed to points of need in District I (the East Coast) and District V. Since pipeline flow is unidirectional, the existing transportation network would not allow the transporting of any surplus crude in District II to District I or District V.

6. Opponents of the Alaska pipeline contend that there is a greater need for Alaska oil in District II.

This, of course, depends upon the definition of need. Without Alaska oil, the percentage of imports into District V would be as high, or higher than, into Districts I-IV. It is also argued that with an Alaska pipeline, the output of Alaska and California would exceed demand, resulting in a surplus in District V and a severe shortage in other areas of the country. This would have been true if construction of the Alaska pipeline had started in 1970 and been completed in 1973, as originally contemplated, but it is clearly not a valid argument today. The earliest we can now expect to complete an Alaska pipeline is mid-1977 or early 1978. By then, demand in District V will most likely exceed supply from California and southern Alaska by more than the capacity of the Alaska pipeline.

7. An Alaska pipeline would provide greater employment benefits to the United States.

8. An Alaska pipeline would produce earlier and substantially greater economic benefits to Alaska. It would allow a greater North Slope production, yielding large royalty payments. A Canadian pipeline would have to be looped to permit the same capacity for U. S. crude as an Alaska pipeline, and we have no assurance that the Canadians would permit looping of a line through Canada. Arguments that a trans-Canadian route would provide greater benefits to Alaska because it would allow a higher

field price for crude oil are not valid. Out cost estimates indicate no significant difference in field price for North Slope crude, regardless of which route is selected.

9. With respect to the environmental matters, Secretary Morton has stated that the greater earthquake and water leg risks of the Alaska route are offset by larger unavoidable damage and increased risks to permafrost zones and at river crossings in the much longer Canadian route.

A Canadian pipeline route would cross over twice as much permafrost and muskeg area as the Alaska pipeline. Thus, about twice as much gravel would have to be mined and used for the berm to carry the pipeline over the frozen Arctic. The Canadian pipeline would also have to cross 12 rivers, each over one-half mile wide.

Largely as a result of environmental concerns reflected in the Interior Department's environmental impact statement, the Alaska pipeline has been redesigned, at a threefold increase in projected costs. As now contemplated, the Alaska pipeline is the most carefully designed pipeline, environmentally, ever conceived. In both routes, the lines would be constructed to prevent thawing of the soil in permafrost zones. In the seismic active areas along both routes, special designs would be utilized to withstand even the most severe earthquakes. Safety requirements that have been imposed in the maritime oil transport from Valdez to the West Coast -- particularly double-bottom tankers -- will significantly reduce the risk to the West Coast from accidental tanker spills. In fact, if we don't ship our oil from Alaska, in specially designed U. S. ships, foreign oil will enter the West Coast in foreign flag vessels that will not be subject to the same rigid standards.

I am not minimizing environmental risks. I do believe, however, that the past delays and resultant research have greatly reduced the magnitude of these risks, and that the overall hazards at this time are not sufficient to further delay construction of the Alaska pipeline.

The above considerations, in my opinion, demonstrate that the Alaska pipeline is clearly superior to the Canadian in terms of economic benefits, balance of payments, security, and employment opportunities. Only in the environmental area does the Canadian route appear comparable, and here the risks and possible damage from either line have been significantly reduced by research during the past few years. Eventually there may be a need for a Canadian line, but all evidence points out that we should move forward on the Alaska pipeline now.

In view of the urgent necessity for early Alaska production, I strongly recommend Congressional action to allow construction of the Alaska pipeline at the earliest possible date.

Now I should like to amplify some of the statements I have made.

Timing

If Congress moves expeditiously to amend the existing law to allow a wider pipeline right-of-way across government lands, environmental hearings and administrative procedures could perhaps be completed so that construction of the Alaska pipeline could commence during late 1974 or shortly thereafter. The Alaska pipeline could then be completed by late 1977 or early 1978.

The earliest a Canadian pipeline could be completed is 1980. More likely, it would take several additional years. The need to prepare detailed design and route analyses, a longer construction period, and the logical desire of Canadian Federal and Provincial Governments to review carefully the pipeline proposals will cause inevitable delay.

United States governmental approval of a Canadian route would be required and would be subject to the same types of objections and delays as the Alaska pipeline. The major sequential steps that would be followed in obtaining Canadian permission, and constructing a Canadian pipeline are as follows:

1. Final denial of the Alaska pipeline.

2. Soil borings and mile-by-mile pipeline design, and preparation of the environmental impact statement, and completion of financial arrangements.
3. Application to the Department of Indian Affairs and Northern Development (DIAND) for a pipeline right-of-way. Public Hearings: Approval by DIAND.
4. Application to the National Energy Board (NEB). Public Hearings: Approval by NEB.
5. Approval by the Canadian Cabinet.
6. Procurement of pipe, tanks, communication equipment, work equipment, barges, and construction of necessary camps. Arrangements for contracts following bids and awards.
7. Construction.

Now let me develop these points. It is unlikely that any work will commence on a detailed design of a Canadian pipeline prior to final denial on the Alaska pipeline. This is because the North Slope reserves are needed to justify a Canadian line.

Detailed soil testing and mile-by-mile pipeline design took three years on the Alaska pipeline. This could hardly be completed in appreciably less time for the much longer Canadian line. The Mackenzie Valley Pipeline Research, Limited, has made a preliminary feasibility study of the

Canadian pipeline but has not started detailed pipeline design studies. They estimate 2-1/2 years for planning and engineering. It could be considerably longer.

The Territorial Lands Act requires that a detailed environmental impact statement be prepared before a right-of-way permit is issued or before easements are allowed for construction. Jean Chritian, Minister of the Department of Indian Affairs and Northern Development, stated on March 1, 1973, that public hearings will be held under the Territorial Lands Act at an appropriate time after the Department receives an application based on a viable project proposal, accompanied by a detailed documentation of research pertaining to areas of social and environmental concern.

D. S. MacDonald, Canadian Minister of Mines, on January 24, 1973, stated that the decision on the actual route to be followed must first be taken by DIAND in conjunction with the territorial governments. An application could then be made to the NEB for a permit. In other words, DIAND's approval must precede an application to the NEB. Presumably, a favorable ruling by DIAND would be contingent upon a prior native claims settlement. Other applications before either DIAND or the NEB could be delayed by law suits such as those brought in this country.

In view of the uncertainty concerning the timing of approvals by DIAND, the NEB, and the Canadian Cabinet, and the large interest costs on premature investments that resulted from delays in construction of the Alaska pipeline, the consortium building a Canadian line would be unlikely to order pipe, and risk large losses on interest payments, prior to the final approval of the pipeline. Lead times of 18 months to 2 years could be required for pipe procurement and construction of necessary camps and roads.

Actual construction time, after the pipe is available and roads and construction camps have been prepared, is uncertain. The Mackenzie Valley Pipeline Research, Limited, has indicated that construction could be completed in 2-1/2 years if there were no other major competing pipeline projects in progress at that time. However, it seems unlikely that the much longer Canadian line could be completed in less time than the Alaska pipeline. A 3-to-4-year construction period seems probable.

I suspect, Gentlemen, that at this point your heads may be spinning, and with ample reason. This is the gauntlet we shall have to run if we choose to go the Canadian route. Indeed, if the Canadians follow the sequence of events they have publicly stated they will follow, then completion of a Canadian pipeline prior to 1983 is unlikely.

Economic Comparisons

Opponents of the Alaska pipeline have asserted that a Canadian route would provide greater economic benefits to the Nation. Our studies indicate the opposite. To avoid confusion we have adopted a methodology similar to that of Mr. Charles T. Cicchetti, an economist whose studies suggest that a Canadian pipeline route is economically superior. We have defined the benefits of an Alaska or Canadian line as the resource cost of the alternate sources of supply, less the resource cost of North Slope crude oil delivered to the same market. Resource costs are defined as the costs of goods and services required to bring North Slope or foreign oil to United States markets. Transfer payments to other Americans, royalty payments to the United States or Alaska, profits in excess of capital costs, and United States taxes are not included in resource costs. Royalty payments and taxes paid to foreign countries, capital costs, and operating expenses are included among the costs of goods and services.

Recent projections made at Treasury indicate that the delivered resource cost of Middle East crude oil in 1975 will be approximately $3.08 per barrel on the West Coast and approximately $3.38 per barrel in Chicago. By 1980, such costs will likely increase $1.50 per barrel, or more, although this is speculation. Bear in mind that these are resource costs, not total costs. United States profits and transfer payments have been excluded. Future market prices will be higher. Our projections indicate delivered resource costs of North Slope crude oil of $1.30 per barrel in Los Angeles and $1.60 per barrel in Chicago. The difference between the delivered resource cost of foreign crude and the delivered resource cost of North Slope crude represents the net benefit to the U. S. economy from producing North Slope crude oil. Our projections indicate a net benefit of $3.28 per barrel in 1980 for either the Alaska or Canadian pipeline route.

Our analysis differs from Mr. Cicchetti's analysis primarily in that we assumed that any North Slope production would displace foreign oil in either market whereas Mr. Cicchetti assumed that it would replace a 50/50 mixture of domestic crude and foreign crude on the U. S. West Coast, and an 83/17 mixture of domestic and foreign crude in the Chicago area. We have also assumed more up-to-date cost estimates. With the United States now producing at peak capacity and imports rising rapidly, it is unrealistic to assume that North Slope oil would displace domestic crude oil rather than imports.

Our analysis indicates that on a barrel per barrel basis, there is essentially no economic difference in the benefit accruing to the Nation from either pipeline route.

What is significant is the indicated difference in net benefits, considering that a pipeline through Canada would deliver U. S. crude at a later date and, initially, at much lower volumes for whatever additional time period is required to loop the Canadian line and increase its throughput.

Completion of the Alaska pipeline should yield a net benefit to the economy starting at $1 billion per year, and increase to $2.4 billion annually by 1980, when we estimate that it will reach its full capacity of 2 million barrels per day. In contrast, a Canadian pipeline would yield yearly benefits of only $600 million initially, increasing to $1.4 billion when the line reaches full capacity. The difference is due to the Canadian Government reserving a portion of the pipeline's capacity to carry its own crude.

During the interval between completion of the Alaska pipeline and the earliest completion date of a Canadian pipeline, the average net benefit from the Alaska pipeline should be about $1.9 billion, assuming an average throughput rate of 1.6 million barrels per day for the period. Following the time when a Canadian pipeline could be completed, the Alaska pipeline would still yield net benefits of $1 billion more per year than would accrue from a Canadian pipeline with the same capacity.

If we assume that a Canadian line would not be completed for five years following the completion of the Alaska pipeline, and that it would not be looped to allow North Slope production equal to the capacity of the Alaska pipeline for another five years, then accumulated net benefits from the Alaska pipeline over and above those of a Canadian pipeline for the 10 years would be $14.5 billion.

In our analysis we have made assumptions regarding future oil prices, the cost of the Alaska pipeline and a Canadian pipeline, and the probable timing of completion of both routes. We have attempted to be realistic, but where there was uncertainty we have chosen to err in a manner to minimize the differences between the benefits of the two pipeline routes. For instance, we chose to utilize the cost estimates for a Canadian pipeline prepared by the Mackenzie Valley Pipeline Research, Limited, rather than the much higher estimates of the Interior Department, or others. Consequently, our projections are probably on the low side.

Actually the numbers used are not critical. It is really immaterial to the basic argument whether the net benefits from the Alaska pipeline would be $2.4 billion in 1980, or only 1/3 of that amount. It is immaterial whether we assume a two-year delay for completion of a Canadian pipeline compared to the Alaska pipeline, or a five-year delay. It is immaterial whether we assume a $3.00 price for foreign crude oil in 1980, or a $5.00 price. It is immaterial whether we assume that a pipeline through Canada would cost $4 billion, or $7 billion. The point is that under any set of realistic assumptions an analysis will indicate advantages for the Alaska pipeline over a Canadian pipeline amounting to hundreds of millions of dollars a year.

In fact, the only way that you can show an economic benefit for a Canadian pipeline comparable to the Alaska pipeline is to assume that each pipeline would carry equal volumes of North Slope crude oil (which is not a valid assumption), or to assume that the North Slope crude oil would displace domestic crude oil with appreciably different values in different markets, rather than foreign crude oil. This Committee should not be misled by analyses purporting to show an economic superiority for a Canadian pipeline when these analyses are based on both of the fallacious assumptions I have just mentioned.

The facts are that the Alaska pipeline will yield substantially greater economic benefits to this Nation than a pipeline through Canada with an equivalent capacity.

Balance of Trade Benefits

In addition to the economic benefits, the Alaska pipeline will provide substantial balance of trade benefits.

During the period between the likely completion of the Alaska pipeline and the earliest completion of an alternative line through Canada, our foreign imports would be reduced by whatever throughput would be delivered through an Alaska pipeline. This would lower our first round balance of trade outflows by the tax paid cost of the foreign crude displaced plus the foreign component of shipping costs. By 1980 this would probably be about \$4.00 per barrel, or higher. If we assume an average Alaska pipeline throughput of 1,600,000 barrels per day during this period, our yearly first round trade outflows would thus be reduced by approximately \$2.3 billion, a not insignificant savings.

If a Canadian line were constructed, we estimate transportation charges of approximately \$1.60 per barrel to the Chicago area. Approximately 60¢ per barrel of this would be for our portions of the line, and a return on our invested capital in the Canadian portion (assuming that we would contribute 49 percent of the investment in the Canadian portion). If we assume a capacity of 2,000,000 barrels per day (of which 1,200,000 barrels per day would be United States crude and 800,000 barrels per day Canadian arctic crude) our first round trade outflows from oil pumped through the Canadian line would be approximately \$1.6 billion per year.

Security Benefits of the Alaska Pipeline

More important than the economic and balance of trade benefits are the security advantages an Alaska pipeline would provide. During the critical period in the late 1970's and early 1980's, an Alaska pipeline would materially increase our ability to withstand a foreign supply disruption. Perhaps of even more significance than the 2,000,000 barrels per day, would be the stimulus an Alaska pipeline would give to exploration. The U. S. arctic has appreciably more potential than the 2,000,000 barrels per day capacity of an Alaska pipeline. The Prudhoe Bay field, alone, will supply this amount. For maximum security, the U. S. needs to develop additional potential.

Unfortunately, the delay in starting the Alaska pipeline has caused the oil companies to curtail and restrict their exploration efforts. This is a natural reaction since the companies cannot be expected to invest large sums of money for exploration and development until they have the prospects of selling within a reasonable period of time any crude which they may find.

Early initiation of the construction of the Alaska pipeline would stimulate exploration and development that could lead to an additional supply of several million barrels per day by the early 1980's. A Canadian line would not provide the same stimulation, both because of the later starting date and the lower initial U. S. throughput in a Canadian line.

I believe that an early start of the Alaska pipeline could contribute materially to our energy security. Not only would it provide the direct security of the initial Alaska pipeline throughput, it would lead to earlier exploration and development of other arctic reserves. Either of these factors could be critical to our economic well-being in the event of a serious supply disruption during the late 1970's or early 1980's.

Legal Considerations

The opponents of an Alaska pipeline have stated that alternative pipeline routes have not been extensively studied, as required by law. This is not true. Extensive investigations of a Canadian pipeline route have been made by the Department of the Interior, as well as by the State Department, the Defense Department, and the Office of Emergency Preparedness. Secretary Morton authorized construction of an Alaska pipeline in 1972 following consultations on the merits of various routes with the concerned Governmental Departments and Agencies. The Secretaries of Defense and State, and the Director of the Office of Emergency Preparedness all recommended immediate construction of the Alaska pipeline. I now repeat that recommendation.

In summary, I believe that the Alaska pipeline offers substantial economic, balance of payments, and security benefits to the United States compared to a Canadian pipeline route. It offers increased employment benefits and substantial economic advantages to Alaska. I believe that the environmental risks, while perhaps substantial initially, are now minimal, due to the stringent regulations that have been placed upon construction of the line and for the tanker shipments of the crude oil from Valdez to the West Coast markets.

I strongly urge the Congress to take immediate action to pass the necessary laws to allow us to proceed with the construction of this vital pipeline.

Thank you.

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ATTENTION: FINANCIAL EDITOR

FOR RELEASE 6:30 P.M. April 30, 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 February 1, 1973, and the other series to be dated May 3, 1973, which were invited on April 24, 1973, were opened at the Federal Reserve Banks today. Tenders were invited for $2,500,000,000, 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 August 2, 1973		182-day Treasury bills maturing November 1, 1973	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv. Annual Rate
High	98.433	6.199%	96.700	6.527%
Low	98.406	6.306%	96.670	6.587%
Average	98.413	6.278% 1/	96.676	6.575% 1/

14% of the amount of 91-day bills bid for at the low price was accepted
44% of the amount of 182-day bills bid for at the low price was accepted

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	Applied For	Accepted
Boston	$ 26,690,000	$ 16,690,000	$ 16,590,000	$ 5,875,000
New York	3,133,005,000	2,018,205,000	2,968,570,000	1,561,470,000
Philadelphia	21,235,000	21,235,000	41,675,000	5,385,000
Cleveland	26,965,000	26,965,000	12,765,000	12,765,000
Richmond	24,865,000	16,865,000	16,810,000	7,310,000
Atlanta	13,760,000	10,560,000	11,950,000	8,950,000
Chicago	303,760,000	142,980,000	264,095,000	83,095,000
St. Louis	68,500,000	47,500,000	56,220,000	21,720,000
Minneapolis	22,185,000	22,185,000	20,175,000	16,175,000
Kansas City	40,185,000	29,885,000	29,815,000	18,345,000
Dallas	45,260,000	31,260,000	47,745,000	22,185,000
San Francisco	135,225,000	116,205,000	129,280,000	37,270,000
TOTALS	$3,861,635,000	$2,500,535,000 a/	$3,615,690,000	$ 1,800,545,000 b/

a/ Includes $223,605,000 noncompetitive tenders accepted at the average price of 98.413
b/ Includes $112,825,000 noncompetitive tenders accepted at the average price of 96.676
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 6.47% for the 91-day bills, and 6.90% for the 182-day bills.